

EUROPEAN NEWS

OVERSEAS NEWS

W. German strikes slow pace of recovery

By Rupert Cornwell in Bonn

THE BILL for the crippling West German engineering strike is now starting to come in. The dispute caused total output to fall 2.5 per cent in April and May compared with the two previous months, while production in the vehicle industry, worst affected by the disruption, plunged by almost a fifth in May alone.

The industrial production figures released yesterday by the Economics Ministry here provide the first statistical evidence of the impact of the strikes, which this week are drawing to their close across the country.

Measured against the same months of last year, production in April and May was up by 2.5 per cent, suggesting that the underlying recovery in the economy is still under way, albeit less vigorously than before.

But the strikes, which began in earnest on May 14, have left a deep scar. Output of cars and lorries tumbled by 18 per cent in May and will have suffered still more last month when the car industry was at a virtual standstill throughout.

The findings of the Ministry try to lend weight moreover to fears that overall growth for 1984 may fall half a point at least short of the 3-5 per cent previously anticipated.

Very probably, too, the dispute was responsible for the smaller than hoped for fall in unemployment last month. According to the Federal Labour Office in Nuremberg, the number of jobless declined by barely 20,000 to 2.1m, in other words from 2.5 per cent to 2.5 per cent of the total workforce.

Herr Heinrich Franke, chairman of the Labour Office, commented yesterday that the trend was unsatisfactory. "Things have got rather worse," he said, holding out little prospect of significant improvement later this year.

The only small solace for the Government remains the continuing low level of inflation. Provisional data suggests that prices rose by only 2.5 per cent last month, unchanged from May, and slightly beneath official forecasts of a 3 per cent rate for 1984 as a whole.

Following completion of the required ballot of workers which showed only a 54 per cent majority in favour of the 35.5 hour week compromise elaborated by Herr Georg Leber, the arbitrator—the engineering industry around Stuttgart.

Many workers, however, voiced their discontent at the outcome of the seven-week strike, and further evidence of disagreement is likely from the similar ballot now under way in the other strike region around Frankfurt.

The parallel dispute in the print industry, meanwhile, was still unresolved last night, despite four days of talks in Düsseldorf. IG Druck, the print union, yesterday called out 12,000 workers in 150 plants.

EUROPEAN MONETARY UNITY

Domestic policy fear makes Bundesbank chary of the Ecu

BY JONATHAN CARR IN FRANKFURT

FOR ALL its high national prestige as an effective defender of the D-mark, the West German Bundesbank none the less is gaining an unflattering image in Europe.

It is that of a dogmatic institution which bars progress to greater European monetary unity with secondary legal and technical arguments. Criticism of the Bundesbank has been most strong from the European Parliament and from some of the smaller countries involved in the European monetary system (EMS).

But there has been at least an undertone of comment from other EMS member states along the lines, "the West Germans always say they want greater European integration, but when it comes to practical steps they raise all sorts of difficulties." The reason for the criticism, which seems at least one-sided, is that in one key respect the central bank takes a particularly restrictive attitude to private use of the European currency unit, the Ecu.

In contrast to the situation in other EMS states, West German banks are not allowed to open accounts denominated in Ecu. This effectively bars West German residents from carrying out Ecu transactions with one another, though they can still buy foreign-issued Ecu bonds if they wish.

For some years after the foundation of the EMS in 1979, the Bundesbank's stance did not seem to matter much. True, the Ecu was supposed to be "at the centre of the system" and might, some hoped, one day become "Europe's currency." But the failure of the EMS to develop as first envisaged, with another thing establishing a European Monetary Fund as a prototype European central bank, meant that the Ecu initially had an existence about as shadowy as that of the old European unit of account had been.

That has changed thanks to a very sharp increase in the private use of the Ecu—a growth whose strength has surprised almost everyone. Well over 200 European banks now have Ecu-denominated accounts for companies and other clients, and last year the Ecu was the third most important currency on the international bond market after the dollar and D-Mark.

Moreover a growing share of European Community trade is being transacted in Ecu. Even the Russians are showing marked interest in the Ecu because, so West German bankers believe, they wish to see a cut in the dominant role of the dollar for political as well as financial reasons.

In this context, the Bundesbank starts to look like a bastion of immobility in a sea of change. Explaining its opposition to private Ecu accounts, the central bank notes that the Ecu is not a real currency at all but a "basket" of nine currencies (those of the EEC member states except for the Greek drachma). That of course is the big

Philippine Cabinet approves tight budget for 1985

BY EMILIA TAGAZA IN MANILA

PRESIDENT Ferdinand Marcos's new Cabinet, meeting for the first time yesterday, approved a modest budget of pesos 67.3bn (\$2.7bn) for the Philippines in 1985. This is 13 per cent higher than the 1984 budget of pesos 59.5bn, a modest rise considering the two peso devaluations in a year and spiralling inflation, over 40 per cent at present.

The proposed budget will be the first issue to be discussed at the new national assembly (parliament) when it opens in three weeks. It will also be a test case for the new parliament, with questions on whether the opposition, which won a substantial number of seats, will attack or approve it. The modest budget is in keeping with steep austerity

measures to which the Philippine Government has committed itself in order to obtain a long-delayed SDR\$15m standby credit from the International Monetary Fund. Conditions attached to the credit are cuts in the Government's spending and budget deficits, control in domestic credits and liquidity and a flexible currency rate.

For the 1984 budget, Mr Marcos ordered a reduction in spending to halve the budget deficit to pesos 7bn in line with the IMF recommendation to limit deficits to 1.5 per cent of the gross national product. Of the pesos 67.5bn budget for 1985, Mr Marcos ordered that 10 per cent be held as reserve for emergency purposes. Although Mr Marcos

did not announce the target deficits for 1985, Cabinet sources said it is hoped to keep the deficit at pesos 4bn. The deficit is hoped to be controlled with the expected increase in government revenue from taxes introduced last month, including higher import taxes, and windfall taxes on exports arising from the devaluation.

Pressure is mounting, writes Emilia Tagaza from Manila, for an end to 'crony capitalism'

Marcos bites the hands he fed

MR FERDINAND MARCOS, the hard-pressed President of the Philippines, is under growing pressure to abandon his much-criticised "crony capitalism" policy as part of his efforts to get the country's economy back on its feet.

Mr Marcos's tendency to shower favours on companies owned by his friends has got him into hot water, not only from the opposition in the Philippines, but also from the IMF and commercial foreign creditors who put part of the blame for the country's \$35bn debt crisis on the subsidies afforded to badly run crony companies.

These companies have had easy access to state-guaranteed foreign loans, but many misused the loans and, in running their businesses, relied more on their influential connections than on sound management.

An official of the Ministry of Trade and Industry, which now manages some of the crony companies, admitted that some favoured firms tended to use easily available capital in setting up conglomerates at dizzying speeds, instead of strengthening their existing companies. When recession hit the country in 1981, many of the new companies proved unproductive and failed, throwing millions of pesos of Government funds down the drain.

The official said, "They also helped abet the dollar crisis since they accumulated im-

ported equipment that was rendered useless when they collapsed."

An economic recovery programme being worked out with the IMF and commercial foreign creditors requires drastic cuts in government spending and budget deficit. This calls for the tightening of the tap on credit, especially to badly managed crony companies.

This support for the companies was skilfully used by the opposition which made a strong showing in the recent elections for a national assembly.

The latest sign that Mr Marcos is prepared to comply with the creditors' restrictive conditions for a rescue package is the dismantling of the monopoly in sugar trading of the National Sugar Trading Corp (Nasutra). Run by Mr Roberto Benedicto, a close

Mr Marcos associate, Nasutra was created seven years ago through a presidential decree. The monopoly's dismantling, to take effect in August, followed strong hints from creditors, particularly the World Bank and the IMF, that free trading in major export commodities would suit the Philippines better.

The cuts in government spending have also forced a halt in the government's bailout of the cronies' crumbling empires. The massive bailout operation was launched three



Roberto S. Benedicto



Rodolfo Cuenca

years ago in the wake of a financial crisis that saw a debilitating run on the capital market and a mad scramble for funds among corporate borrowers.

The government promised that once rehabilitated, the companies would be returned to their former owners, but it is now highly unlikely that the presidential friends will be able to get their business empires back.

Among those that the government tried to rescue with cheap central bank funds and government equity were some conglomerates owned by Mr Rodolfo Cuenca, the President's going mate, Mr Herminio Disini, husband of a first cousin of the President's powerful wife Imelda and Ricardo Silverio.

After the constraints on the government's bailout pro-

gramme, Mr Silverio lost grip of his major company, Delta Motor Corporation, former partner of Toyota Motor of Japan. Having spread their businesses too thinly, the Filipino companies involved failed to pay their debts and royalties.

Mr Marcos has refused Mr Silverio's pleas to stop his major creditor, the state-owned Philippine National Bank (PNB), from foreclosing his assets.

Mr Cuenca has also lost his Construction and Development Corporation of the Philippines (CDCP), the country's largest construction firm. His erratic style of management was a major factor in CDCP's downfall, although it was aided by the company's failure to collect payments for huge government contracts.

Mr Disini was also a model of imprudent diversification. He controlled about 30 companies whose assets were once estimated at \$1bn.

The loss of their chain of companies, however, does not mean that Mr Marcos's friends are destitute, nor has the President completely cut them off. Mr Disini for example, has only one company left, the Philippine Tobacco Filters Corp, but it is the biggest in its field. It benefited from a presidential decree lowering the import duty on the basic raw material for its product, cigarette filters.

Mr Benedicto still controls a commercial bank which recently obtained cash advances from the central bank, whose rediscounting window has been shut to other banks.

There are two Marcos associates who have proved to be competent industrialists and have survived the crisis. One is Mr Eduardo Cojuangco, President of the United Coconut Oil Mills Inc (UNICOM), which has monopoly over coconut trading. Mr Cojuangco's strategy was to move into coconut-related industries and agro-industrial ventures. He recently became chairman of San Miguel Corp, the country's largest publicly quoted company.

The other survivor is Mr Benjamin Romualdez, brother of Mrs Marcos and overseer of the Romualdez clans business interests.

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OVERSEAS NEWS

India's trade gap widens despite rise in exports

BY K. K. SHARMA IN NEW DELHI

INDIA'S trade gap rose to Rs 59.51bn (£9.7bn) in 1983-1984 from Rs 54.09bn in the previous year...

For the larger deficit was the prolonged port strike in India in March. This is thought to have led to a loss of exports of around Rs 6bn.

Soldiers patrol tense Kashmir capital

BY OUR NEW DELHI CORRESPONDENT

THOUSANDS of paramilitary forces yesterday patrolled the streets of a tense Srinagar, capital of the north Indian state of Kashmir...

Abdullah had issued a call for a general strike which was widely heeded, although the curfew of the north Indian state was lifted yesterday morning.

Singapore reserves rise to \$9.4bn

BY CHRIS SHERWELL IN SINGAPORE

SINGAPORE'S official foreign reserves, continuing a seemingly inexorable upward trend, have pushed through the \$220bn mark to the equivalent of US\$9.4bn, a figure remarkably high when compared to, say, Britain's US\$15.5bn.

This is in line with the views of Dr Goh Keng Swee, Deputy Prime Minister and acknowledged architect of Singapore's economic miracle.

Egyptian leaders discuss new Cabinet

Egypt's leaders are deciding this week on a new Cabinet. The new Prime Minister seems certain to be Gen Kamal Hassan Ali, who is acting Premier.

Lebanese peace plan gets under way

BEIRUT — The Lebanese Government's peace plan got under way yesterday as Muslim militiamen disappeared from the streets of West Beirut and Christian forces began withdrawing their big guns from the eastern part of the city.

disciplined Lebanese Forces Christian militia are rarely seen on the streets, militiamen were seen transporting heavy weapons out of the city.

SA likely to resume Angola withdrawal

BY JOHN STEWART IN JOHANNESBURG

THE WITHDRAWAL of South African security forces from southern Angola is expected to resume after assurances were received by Foreign Minister Mr R. F. Botha from the Angolan Government.

Electricity strikes hit Israel

BY David Lennon in Tel Aviv

ISRAEL SUFFERED serious electricity blackouts yesterday as the Electric Corporation staff went on strike in support of wage demands.

Ivory Coast approves new investment code

BY PETER BLACKBURN IN ABIDJAN

THE IVORIAN Government has approved a new investment code confirming the country's liberal economic policy and encouraging small and medium-sized enterprises, job creation and industrial decentralisation.

Crops hit by African drought

NAIROBI — Six southern African countries will need 1.55m tonnes of food aid in 1984-85, almost twice as much as the previous year, the UN Food and Agriculture Organisation said yesterday.

AMERICAN NEWS

Lusinchi signs wage and price curbs law

By Joseph Mann in Caracas

PRESIDENT JAIME LUSINCHI has signed into law a controversial bill aimed at setting up a new system for regulating prices and wages.

The gender gap poses political perils, reports Reginald Dale

A fateful choice for Mondale

BY ACTIVELY encouraging the notion that the time is finally ripe for a woman in the White House, albeit initially as vice-president, Mr Walter Mondale has let a genie out of the bottle that threatens no longer to do his bidding.



smith, the organisation's president, says there is good reason to believe that such a revolt from the convention floor, unpreceded in modern times, could be successful.

China to sell MiG jets to U.S. company

By Our U.S. Editor in Washington

A MAJOR American defence company has arranged with China to buy up to 24 Soviet-designed MiG-24 jet fighters for possible use by the U.S. Navy as "adversary aircraft" in pilot training exercises.

Reagan officials feel they have wrested arms talks initiative

BY REGINALD DALE, U.S. EDITOR IN WASHINGTON

REAGAN Administration officials feel they have grabbed the political, and the propaganda, initiative from the Soviet Union in the latest shuttlecock exchange of superpower statements on the future course of arms control negotiations.

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WORLD TRADE NEWS

IFC to finance Third World oil exploration

By MAURICE SAMUELSON

THE INTERNATIONAL Finance Corporation (IFC), private sector arm of the World Bank, is to earmark up to \$500m over the next five years for oil and gas exploration in developing countries.

Although the Washington-based corporation has participated in small scale energy projects over the past four years, it has now decided greatly to expand its involvement in exploration and energy development activities.

Mr Richard Richardson, director of its development department, said in London yesterday that the corporation wanted to encourage small, independent oil companies to play a leading role in developing energy resources of Third World countries.

Discussions with independents had confirmed that a direct sharing of exploration risks with the World Bank and its offshoots, and subsequent financing of development ventures, should increase the willingness of these companies to invest in developing countries.

The corporation had previously been reluctant to be

associated with individual, high risk ventures. But its risks would be reduced by being involved in a multiplicity of projects.

Between 1985 and 1989, the corporation would earmark \$100m of equity capital for investment in exploration ventures, with a further \$60m of equity and \$240m in loans committed to further development of exploration ventures which proved successful.

An additional \$250m of investments and lending was planned in the next five years for projects unrelated to the exploration programme.

The \$500m energy programme would include coal, geothermal and alternative energy projects, as well as oil and gas financing and was likely to form part of total project capital expenditures of \$3-\$4bn throughout the five year period.

The energy programme would concentrate on countries with what Mr Richardson called "modest geology," whose deposits were regarded as too small to be exploited by major oil concerns. The corporation's equity stake in exploration ventures would be to 10 to 12 per cent.

Atlas-Copco in Chinese tunnelling plant deal

By Kevin Done in Stockholm

ATLAS-COPCO, the Swedish Engineering Group, has completed two licensing agreements for the manufacture of drilling components for tunnelling equipment in China.

The agreements cover the transfer of technology to two factories in Nanjing and Shenyang and will run initially for eight to nine years.

The agreements also include the regular shipment of Atlas-Copco drilling equipment and components to China, which is expected to have a growing demand for tunnelling machinery, chiefly for power stations, coal mines and railway tunnels.

Earlier this year the group signed two other licensing deals with China covering the manufacture of compressors in Wuxi and Dingjin.

With weak demand in many of its established markets Atlas-Copco considers that China offers considerable long-term potential for increasing sales.

Acma Chimica Organica (Montedison Group) of Italy will supply technology and main equipment for a finishing plant for dyestuffs to be built at the chemical site of Jilin in north-east China) by the China National Chemical Construction Corporation, our Trade Staff writes.

Canute James reports from Nassau on divisions in the Caribbean Community Grenada invasion clouds Caricom talks



Mr Seaga: tempers have cooled Mr Burnham: still incensed

THE LEADERS of 13 English speaking Caribbean countries today begin four-day meetings in which they hope to stem a slide towards disintegration of the region's economic community. The 11-year-old organisation has been wracked by growing trade protectionism and political disputes.

Planned as a framework for the integration of the region's small and weak economies, based on free trade between its members, the Caribbean Economic Community, with a market of 5m has foundered on policies implemented by governments to protect their domestic economies.

When they sit together, the region's leaders will be attempting to end a series of trade disputes which have caused a downturn in regional commerce, in the hope that by leaning on each other, they will be better able to breathe new life into their economies.

Although meeting to discuss economic issues, the deliberation of the Presidents, Prime Ministers and chief ministers of the region will inevitably be conditioned by one political factor which will not be on their agenda—the fallout from last October's U.S. invasion of Grenada, a member of the Caribbean Community.

The invasion split the group down the middle between those such as Jamaica and Barbados, which supported the invasion, and the others including Trin-

idad and Tobago and Guyana, which opposed it.

That they will be meeting at all supports the recent conclusion of Mr Edward Seaga, the Prime Minister of Jamaica that tempers have cooled significantly. "We will not know until we get together but I think there is certainly dissipating a lot of the differences," Mr Seaga said.

Moves towards reconciliation, however, could be undone by Mr Forbes Burnham, the President of Guyana, who is known to be still incensed by the Grenada issue. It is not likely, however, that the Guyanese leader will repeat his dis-

constitutes just under a half of the Community's market.

The moves by these two countries contributed to a fall in the value of trade within the Community last year. Mr Roderick Rainford, the secretary-general of Caricom, said last week that this declined from US\$535m (£400m) in 1982 to \$464m last year.

It seems unlikely that the value of regional commerce will reach the \$750m target which Community trade ministers had set for next year.

Central to easing the trade problem will be unlocking a trade payments facility which last year reached its \$100m limit — mainly because Guyana used up \$90m.

Agreement on this should not be difficult, trade officials here say. The real difficulty, they believe, is long-term financing for trade. The summit will be considering a proposal for the region's central banks to make a joint approach to international financial institutions for between \$50m and \$100m to provide trade credits.

In the past five years several leaders have concluded that the community market of 5m people was too small and that it should be widened. The region's foreign ministers have recommended to heads of government that they make the Dominican Republic and Haiti observers on some Community organisations — usually a prelude to member-

ship.

There is every likelihood that the Dominican Republic's applications will be accepted in a few years, making the first non-Anglophone member of the Community. There is, however, some reluctance about admitting Haiti. The country's weak economy and large population are thought by some Caribbean Community members as being potentially a hindrance to the group's progress.

Surinam, which has also applied for Community membership is already an observer to some proceedings.

The issue of membership could be a major point at the summit. Mr Seaga and Mr Tom Adams, the Prime Minister of Barbados, have suggested that the Community treaty be altered to make membership easier.

New members are admitted on a unanimous vote. For any country to be thrown out of the Community, it has to consent to the vote itself. The proposal is for a majority vote to determine who comes in and who leaves, but this has already met opposition from several members.

The proposed changes to the treaty are not likely to be welcome by Mr Burnham. When the proposal was first made public the move was generally assumed in the region to be aimed at evicting Guyana from the Community.

Japanese steel companies increase sales to China

TOKYO—Six Japanese steel-makers have jointly received fresh orders for 1.23m tonnes of steel from an official of Nippon Steel said yesterday.

The steel-makers and China also have agreed to increase the price of steel sold to China by several percentage points, the official said. But he declined to give the price or percentage of the increase.

With the latest orders in hand, the six Japanese steel producers expect total exports of ordinary steel and seamless pipes for the second half of 1984 to be more than 3m tonnes, compared with 3.45m tonnes reached in the previous half-year period, the official said.

The group of steel-makers, led by Nippon Steel, had exported 3.32m tonnes of ordinary steel and seamless

pipes to China in the first half of 1983, and then followed that with another 3.19m tonnes in the second half of 1983, the official said.

The group already had agreed with China to increase seamless steel exports in the July-December period by more than 200,000 tonnes from the January-June period, and to raise the price of seamless pipe by about 10 per cent.

Other steel-makers in the group are Kawasaki Steel, Sumitomo Metal Industries, Kobe Steel, Nippon Kokan and Nisshin Steel.

Esabkawa-Harima Heavy Industries (IHI) said it won an order from Evergreen Marine of Taiwan to convert seven freighters into container carriers for an undisclosed price. Agencies

Iran fails to pay interest on Japanese loan

TOKYO—Iran's latest interest payment of ¥2.5bn (\$8m) on Japanese loans for a multi-billion-dollar joint petrochemical project is more than a month overdue, Kyodo News Service reported yesterday.

Iran promised Japan's Mitsui Group, a Japanese partner, in July last year to pay ¥2.5bn in interest over three months as interest on the ¥125bn loans.

Iran, however, has failed to pay the latest quarterly instalment due May 25, Kyodo said. It said the last interest payment was made in February.

Mitsui officials declined to comment, but industrial sources said Mitsui expected Iran to pay the interest sooner or later.

The project, involving the National Petrochemical Company of Iran and the Tokyo-based Iran Chemical Development Company of the Mitsui Group, has been suspended because of the Iranian revolution and the Iran-Iraq war. About ¥600m had been spent on the project since 1973, and it is about 85 per cent complete. AP

Moscow puts off Lurgi gas plant contract

PARIS — Technical problems are holding up a \$300m deal for a gas desulphurisation plant in the Soviet Union to be built at the Tengiz gas field in Kazakhstan by a team led by West Germany's Lurgi group, but signature is expected during the autumn, a spokesman for Lurgi said.

The Soviet Mashinimport agency sent a letter of intent on April 20 offering the contract to the companies involved, Lurgi, Lavallin and Litwin, he said in answer to questions.

The three foreign owned companies won the deal against opposition from France's Technip, despite official protests that French companies have won too few large Soviet contracts recently.

French Foreign Trade Ministry officials denied press speculation that the Soviet decision was politically inspired.

But the lack of contracts and the start earlier this year of gas deliveries through the Siberian pipeline have aggravated France's growing complaints about its adverse trade balance with the Soviet Union, they said. Reuter

Egypt buys UK hydroponic grass-growing equipment

By LORNE BARLING

HYDRODAN of Corby a manufacturing equipment, has won an order for 160 of its conical shaped units from the Egyptian Agricultural Development Bank.

The order worth more than £1m is regarded as a breakthrough for sale to developing countries with harsh weather conditions where the system offers advantages for livestock farming.

The Egyptian order, backed by the World Bank, follows a 12-month trial of two machines at El Enir 200 miles south of Cairo, which has proved successful in providing food for sheep, goats and cattle.

Mr Geoffrey Lusty, managing director of Hydrodan, said he hoped to negotiate a second deal in Egypt and added that five machines had been ordered for trial in China—four in Zhenjiang Province and one in Chejjiang Province.

China suffered from difficult weather conditions he said, and the use of the machine was intended to avoid the need to slaughter or move animals during the winter.

It was hoped that a substantial order from China would follow the trial period, and in the long term, it could become an important market.

Davy McKee's Boots deal

DAVY MCKEE, of the UK has won a contract from Boots Pharmaceuticals to provide engineering, project management and site construction management services for Boots' new \$25m (£22m) facility to be built at Shreveport, Louisiana. Our Trade Staff writes.

taken by Davy McKee's Chicago office which had previously completed a preliminary engineering study for Boots Pharmaceuticals in the rapidly growing U.S. division of the Boots Company, of Nottingham. The Shreveport facility will become the U.S. headquarters site of Boots Pharmaceuticals.

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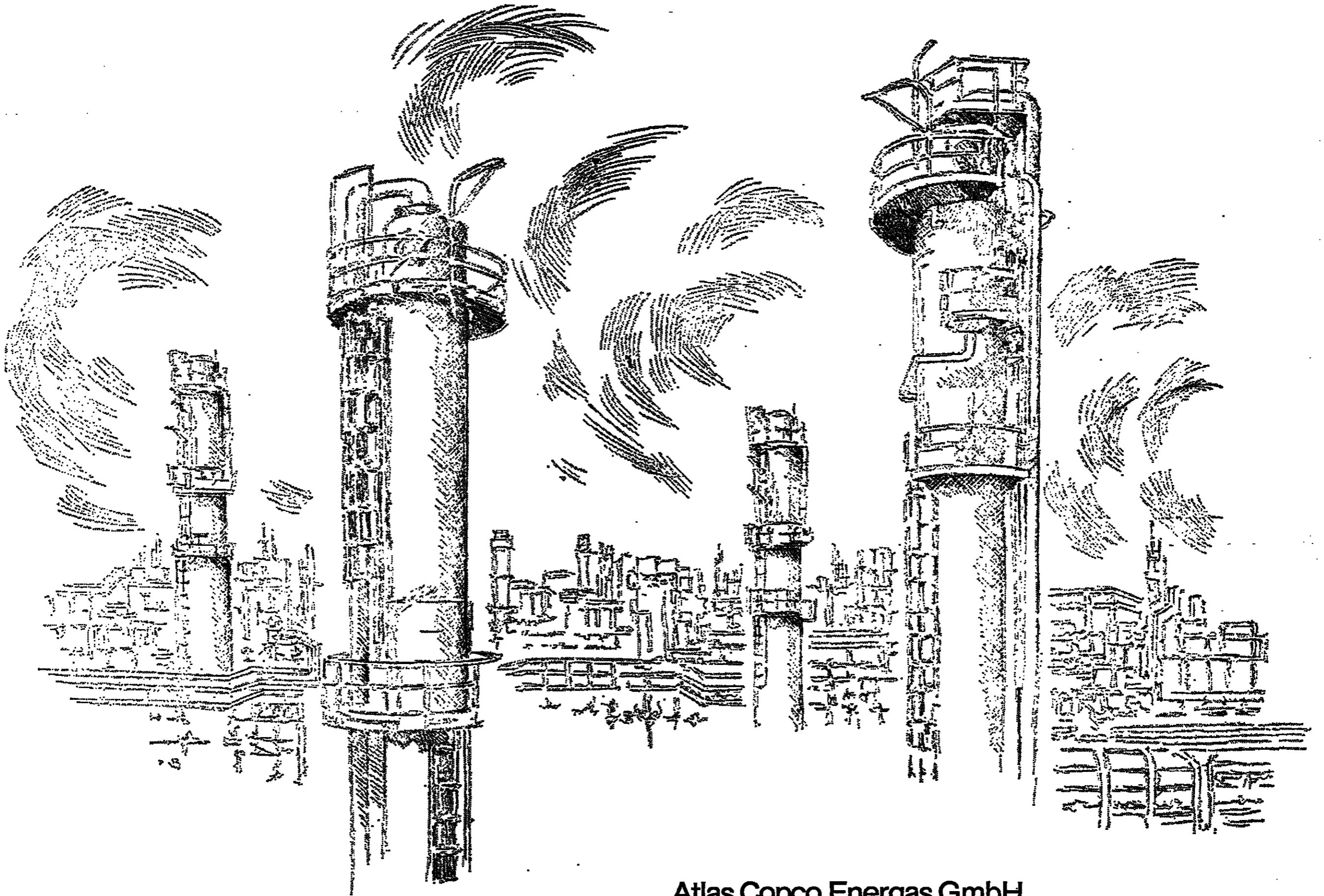
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Atlas Copco has launched Atlas Copco Energas, a synergy of world-wide skills, knowledge and experience.

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Köln, W. Germany. The newly formed headquarters of Atlas Copco's gas and process sector, incorporating:

- KÖLN WORKS—design and manufacture of expansion turbines, centrifugal and reciprocating compressors. Acquired from Linde AG, June 1984.
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- Energy Industries Inc., Corpus Christi, Texas. Supplier of high speed boxer compressors for field gas gathering - outside USA and Canada.
- Your local Atlas Copco company for project information and service.

WORLD TRADE NEWS

Guy de Jonquieres analyses the legal battle between the EEC and IBM

War of nerves nears climax

A SHOWDOWN is nearing in the prolonged war of nerves between the European Commission and IBM of the U.S., the world's largest computer manufacturer.

In the next few weeks - possibly before the end of this month - the Commission is expected to disclose how it intends to resolve its controversial competition case against the company, which it has charged with abusing a dominant market position in violation of the Rome Treaty.

The case is the biggest and most complex of its kind in EEC history. After several years of backroom jousting between lawyers, behind-the-scenes lobbying by IBM in EEC capitals and, more recently, attempts to reach a negotiated settlement, both sides have raised the stakes in the past few weeks by going public with the dispute.

Calculated press leaks from Brussels, apparently intended to step up the pressure on IBM, have been met by outspoken ripostes from the company's normally publicity-shy senior executives. Mr John Opel, IBM's chairman, and Mr Nicholas Katzenbach, its chief legal adviser, have denounced the case and made clear that the company is prepared for a fight to the finish if necessary.

"It has gone far beyond being a normal anti-trust proceeding - it has become a political battle," says one independent Brussels lawyer. "The debate is not longer over legal rights or wrongs, but over whether the Commission has the stomach for a major confrontation with IBM or will simply put its tail between its legs and retreat."

The Commission has picked a formidable opponent. With total revenues last year of \$40bn, IBM bestrides the information processing industry like a colossus. It is the overwhelming force in large "mainframe" computers, accounting for about two-thirds of all machines installed, and is rapidly emerging as market leader in personal computers as well.

With so many of the world's biggest customers using its equipment, IBM also controls many of the most widely-used industry standards. This advantage increasingly worries its smaller rivals, both in the U.S. and Europe, who complain that it gives IBM a significant competitive advantage.

In Western Europe its annual turnover of \$10bn almost equals the combined total of its 10 closest competitors, and in every major European country its sales are at least double those of the largest indigenous manufacturer.

It also has a massive industrial presence in Europe, where it employs 100,000 people, only a handful of them Americans. It has 15 plants, which make 90 per cent of what it sells locally, nine research and development centres and last year paid almost \$1bn in taxes, making it one of Europe's 10 largest taxpayers. Mr Opel likes to boast that IBM has contributed more than any other computer manufacturer to Europe's economic prosperity.

It is not just IBM's sheer size which worries its smaller rivals, but the extraordinarily voracious drive with which it competes - both in computers and increasingly in fields such as telecommunications and financial information services as well. "IBM does not behave like other U.S. companies," says one EEC official. "It behaves like the Japanese: it fights for every last per cent of every market."

Its European competitors, and some EEC governments, would like to see IBM's relentless advance checked. But many doubt whether the EEC has a strong enough legal case to dent the IBM challenge and some question whether the Commission can hope to do much more than emerge from the proceedings with its dignity intact.

The case has been highly political from the outset. The Commission began investigating IBM in 1973, prompted by complaints by several American computer companies and by the anti-trust action launched by the U.S. Justice Department five years earlier. Encouraged by pressure from the Carter Administration, it started proceedings against IBM in late 1980.

But the political winds shifted abruptly barely two years later, when the Reagan Administration decided to drop the U.S. case and began to urge the Commission to follow suit. One senior Reagan offi-

DATA PROCESSING REVENUES IN WESTERN EUROPE

Company	1983 Revenues (\$m)
1 IBM (U.S.)	10,634
2 Bull (France)	1,332
3 Siemens (W. Germany)	1,289
4 Olivetti (Italy)	1,160
5 Digital Equipment (U.S.)	1,053
6 ICL (UK)	984
7 Nixdorf (W. Germany)	825
8 Burroughs (U.S.)	800
9 NCR (U.S.)	841
10 Newbold-Packard (U.S.)	775

Source: IDC Europe

The Commission has so far stuck to its guns, though it has narrowed its case to one key charge - that IBM has restricted competition in the market for 370-type "mainframe" computer processors (in practice, all IBM's biggest machines) - by withholding "interface" information about their physical design and the operating software which controls them.

This practice is alleged to have inhibited the ability of other manufacturers to make "plug-compatible" machines designed specifically to work with or substitute for IBM equipment. (The EEC is also pursuing another, relatively minor, charge concerning IBM's marketing policy for computer memories.)

The Commission wants IBM to publish much more technical information about its products, and to do so within 30 days of announcing them instead of waiting until they are first delivered to customers, as at present. Furthermore, it is seeking more comprehensive disclosure not just about the 370-type processors but also about a wide range of other IBM products, such as terminals and disk drives, and the communications techniques used to link them together.

The company contends that the Commission's allegation of dominance is based on far too narrow a product description which amounts to little more than the IBM brand-name market. It says that the definition should be widened to include computer processors of all types and sizes. On that basis, it claims, its market share would be less than 30 per cent.

It strongly opposes the Commission's demand for more comprehensive disclosure of technical details about other equipment in its range. The company claims that this is based on a misunderstanding of how modern computer systems function and assumes, incorrectly, that all the different parts of a large installation are totally controlled by instructions from the central processor.

IBM emphasises that no customer has complained about its disclosure policies, which it says conform to accepted industry practice. It contends that the changes which the Commission wants would produce little direct benefit for European manufacturers either, since none makes large plug-compatible machines which run on IBM software.

Several European manufacturers, including Britain's ICL and West Germany's Siemens, market large plug-compatible computers made in Japan. In the U.S., one of the two leading plug-compatible suppliers, National Advanced Systems, sells machines made by Hitachi. The other, Amdahl, is 49 per cent owned by Fujitsu, which also supplies the company with sub-assemblies.

IBM contends that if it lost the EEC case, the only real winners would be Japanese companies. The Commission rebuts this claim as irrelevant, on the grounds that it is concerned not just with the dwindling number of actual competitors but with the alleged effects of IBM's actions on potential market entrants.

IBM's central argument, however, is one of principle. It objects that the Commission is seeking to force it to give its competitors proprietary design information which would enable them to copy its products as soon as they were announced.

This, it claims, would amount to unwarranted interference in its commercial freedom and deprive it of the just commercial rewards from its own innovation.

It has rejected as unworkable an EEC offer to provide safeguards on some of its most sensitive information.

Many independent U.S. industry experts agree. Mr Ulrich Well of Wall Street investment bank Morgan Stanley, a leading IBM-watcher, describes the EEC position as "silly". "The EEC is nowhere near proving that IBM has abused its monopoly power," he says, adding that in his view IBM's defence is solidly based.

The company has said that if the Commission issued a formal decision ordering it to reveal confidential information, it would appeal immediately to the European Court, where it is confident of prevailing. It has defended almost a dozen anti-trust actions in the U.S. and has never been defeated in court.

Many legal experts believe that IBM would stand a good chance of having a negative EEC decision suspended until the appeal was completed. But there are reasons for thinking that the company would prefer not to fight the case in court and would rather reach a negotiated settlement if it possibly could.

First, the appeals process would take at least two years and would bring hostilities with the Commission into open view. The company is anxious to avoid such a public confrontation, which could compromise its strenuous efforts to win acceptance as an integral part of the Eu-

ropean computer industry. Its concern to be seen as a "good European" has been heightened by recent U.S.-EEC tensions over high-technology transfer.

IBM is particularly keen to participate in Esprit, the \$1.5bn EEC-backed research and development programme intended to help Europe's electronics industry compete with the U.S. and Japan. So far, however, it has not been invited to join, and its exclusion from the "inner circle" of European manufacturers clearly rankles.

Second, while some senior EEC officials remain uncertain that they could prove IBM guilty of monopoly abuse in the European Court, they appear more hopeful that they could get the Court to endorse a finding that IBM was a dominant supplier.

They believe that IBM would be disturbed by such an outcome because it might influence U.S. anti-trust thinking in the future. The U.S. Justice Department recently opened an anti-trust investigation into agreements under which Fujitsu and Hitachi pay IBM substantial royalties for software.

IBM has already made two sets of confidential proposals for settling the EEC case. The Commission rejected the first set but is still considering the second, which it has said contains substantial concessions.

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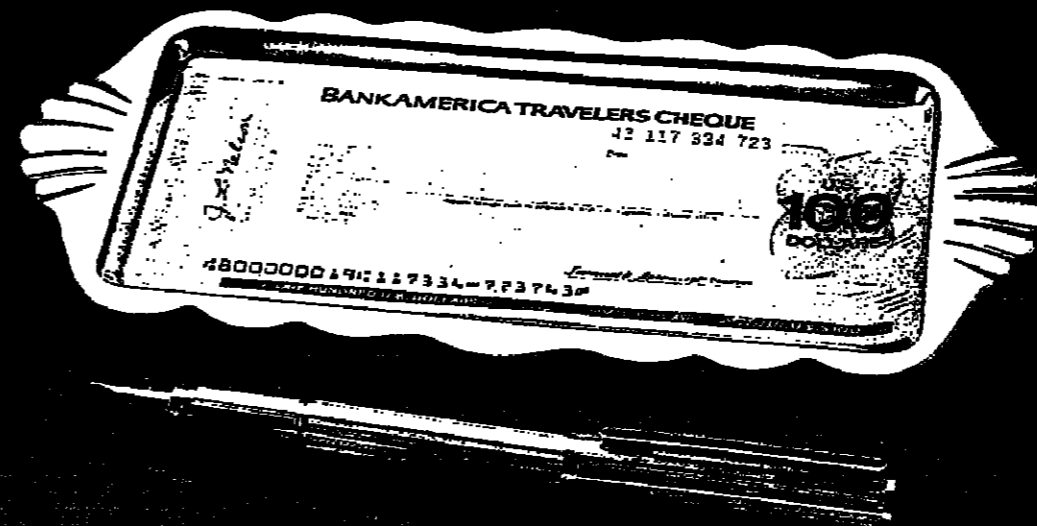
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ENERGY REVIEW

Low-cost coal producers face losses

BY GERARD McCLOSKEY IN LONDON

BEFORE THE miners' strike in Britain became submerged beneath picket line violence and rhetorical excess, the central issue facing the industry and dividing the sides was the cost of producing deep-mined coal from UK pits.

The assumption has often been made that Britain's coal industry stands alone with its financial and labour difficulties, rivalled only perhaps by other declining coal industries in France and West Germany. A new Australian study, by Professor Don Barnett of Macquarie University, Sydney, offers a broader and more accurate context. The study, the first for several years on the cost-price structure of an industry renowned for secrecy in such matters, demonstrates that even the world's low cost producers in South Africa, Australia, the U.S. and Canada are losing money on their export business.

This pressure on margins is, without doubt, one of the reasons that three of the main coal producing countries, apart from the U.K., face a troubled period in labour relations.

In the U.S. a miners' strike is expected this autumn when a three-year pay contract expires. Coal has also entered the U.S.-Japan trade wrangle, with the Americans arguing that Japan should be forced to buy more U.S. coal to offset the U.S. trade deficit, even though U.S. coal is the most expensive sold on the Japanese market.

"Perhaps the Administration has not made the point in a way the Japanese can understand. Niceties aside, unless there is action soon by the Japanese to restore U.S. coal imports to our traditional share of the Japanese coal market, the Congress is going to turn the Pacific Ocean into the biggest floating Toyota parking lot anyone has ever seen," a tub-thumping Senator John Heinz told last month's annual convention of the National Coal Association.

Recent coking-coal contracts between the Japanese steel mills and Australian mines have split the Australian industry, setting the Government against the producers and bringing a strike threat from New South Wales miners.

In South Africa, the newly recognised black union, the National Union of Mineworkers, and the Chamber of Mines are negotiating on pay. The union recently took the first formal steps towards a strike, and last week there were riots at a colliery owned by Anglo-American Coal, the largest producer.

Stagnant market

Moreover, in Canada, desperate efforts are being made to put on to a profitable base the Japanese-Canadian owned Quintette coking coal mine in British Columbia, which at 670m tonnes a year output is one of the world's largest, chasing steel industry customers in a stagnant market.

According to the Barnett study, only South Africa's steam coal and Queensland's established coking coal mines - for example those run by Utah and Broken Hill Proprietary - are operating at a profit on internationally-traded coals. It is significant that in both these cases operations are based on open-cast mining.

The cheapest deep-mined coal, Prof Barnett says, is being produced in Utah in the U.S. at \$20 a tonne. However, with rail and port charges of \$29 a tonne, Utah is effectively excluded from competing on world steam coal markets, especially when the dollar is strong.

New South Wales, with a mine cost of \$21 a tonne and an FOB exporting port delivers coal to export terminals at a break-even cost of \$40 a tonne. In contrast, South Africa's open-cast steam coal is mined from just \$12 a tonne and reaches

ships at Richards Bay at \$27 a tonne.

Coking coal production costs range from established Queensland mines' \$19 a tonne, which reaches port at a highly competitive \$32 a tonne, to \$44 for a tonne of coal from Quintette and Bullmoose in British Columbia, which with high charges for transport (\$20 a tonne) and capital recovery (\$15 a tonne) arrives at the British Columbian exporting port of Ridley Island at \$80 a tonne.

However, the most striking point about Prof Barnett's figures is the gap between these costs and current prices.

On the European steam coal spot market, South African coal, 10,400 Btu/lb, 0.8 per cent sulphur, is trading at \$42.50, delivered to European ports - according to the regular survey carried out by International Coal Report.

Higher quality Australian steam coal (12,000 Btu/lb) is being offered at \$49-\$50 a tonne and Polish coal (12,500 Btu/lb) at \$47 a tonne.

In the last year this mismatch between cost and price has helped to restrain the supply of coal to the glutted north European market.

U.S. steam coal, with a delivered cost to Europe of \$39.40 a tonne, is no longer even listed on the spot market. However, because the major Gdansk loader is out of fashion, severely restricting Polish exports, the U.S. is strikebound and South Africa, apparently, has sold out its tonnage for the rest of the year, very little coal is being offered spot in Europe at present.

These factors explain the rise in spot prices since last September - when South African coal was \$32 a tonne - but high customer stocks have mitigated this price trend.

Coal shippers are losing money too. The figures for ocean freight costs are based on shipping brokers' estimates that real costs are between 50 and 100 per cent higher than current freight rates.

On the basis of these two sets of break-even figures, the delivered cost of Australian deep-mined steam coal into Europe is now around \$65 a tonne, or more than \$10 above the price being paid by Britain's Central Electricity Generating Board. Probably the only healthy coal mines, apart from open-cast exporters in South Africa and Queensland, are those selling to domestic markets, particularly in the U.S.

So it is not surprising that labour trouble has arisen. A U.S. miners' stoppage looks certain this autumn. A new three-year contract is due and Mr Rich Trunka, the new leader of the United Mine Workers' Union may be anxious to show his mettle.

The length and violence of UMW strikes are legendary - putting even UK disputes, until 1984 at least, in the shade.

In Australia, where 33 unions are involved in the coal chain from pit to ship, coal price cuts secured by Japanese steel mills have, for the second year running, generated threats of a dispute.

Agreements

The low-cost pits of Queensland, notably those run by BHP, led the way in these agreements producing an instant response from New South Wales miners, who are still arguing that further redundancies will be caused in their higher cost collieries. A trend towards less labour-intensive open-cast mines has already allowed Australian coal production to rise over the last few years, but with a sharply contracting workforce.

But if operators of such established mines as those in the U.S.'s Appalachian mountains and in New South Wales are having a problem breaking even, their worries are

nothing compared with those who own expensive new pits.

The first deliveries of 20m tonnes of additional coking coal production, all of it aimed at the Japanese iron and steel producers, are beginning to arrive, most of it tied to the mills in long-term contracts. But Japan is unable to satisfy the output of mines from which it has traditionally bought, let alone to take on new volume.

Although the mines are scattered through Queensland, Western Canada, China and the Soviet Union, it is the two coking-coal mines of the North-east British Columbia development, Quintette and Bullmoose, that have attracted most attention. Quintette and Bullmoose were a key part of British Columbia's strategy to open up the North-east of the province with provincial and federal money as well as the financial backing of the mines' future customers - the Japanese steel mills. A study earlier this year by Canadian stockbrokers Midland Doherty estimated that Quintette would lose C\$102m this year, C\$108m next year and C\$104m in 1986.

The prospects for new steam coal mines are a little better, with some prospect of rising demand.

Queensland's newest steam coal mine for the export market, Blair Athol, which opened this spring, has already produced serious contractual conflict with customers. It is contracted to sell to Japan's Electric Power Development Corporation and Japan Coal Development. The Japanese refused to take either the volume or pay the agreed price, so coal is being shipped to Japan at a stop-gap price pending further negotiations.

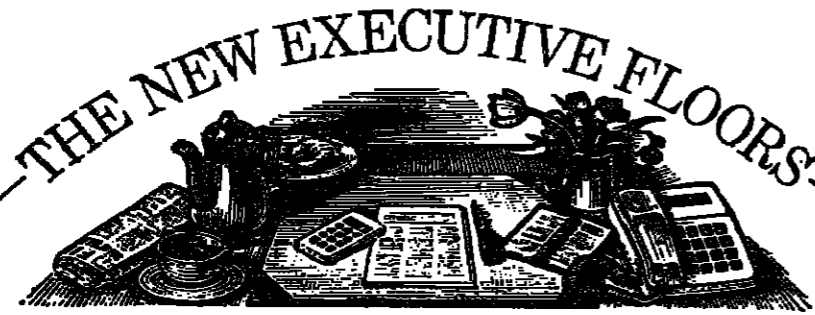
Given this international background, it is hardly surprising that the geologically much less favoured UK coalfields are having problems with their finances. Gerard McCloskey is editor of the FT International Coal Report

WORLD COAL - COST OF PRODUCTION AND DELIVERY (\$/TONNE)

Type of Mine	South Africa open-cast	Appalachian open-cast, non-union	Appalachian deep, non-union	Appalachian mountain-top, new deep, non-union	Appalachian deep, union	Utah deep	NSW old deep	NSW open-cast	Appalachian old deep, union	Alberta, South British Columbia old, open-cast	Alberta, South British Columbia new open-cast	Northwest British Columbia open-cast	Queensland, open-cast, old	Queensland, open-cast, new
Mine operating cost	12	21	25	27	31	30	21	19	38	31	32	44	18	21
Rail and port cost	3	15	18	18	18	29	13	13	18	18	20	10	3	13
Capital recovery	3	2	2	3	6	7	3	3	8	3	10	18	3	13
Break-even cost FOB port	17	38	45	52	55	66	40	40	64	52	62	60	22	48
Freight to Rotterdam	12	10.5	10.5	10.5	10.5	25	25	25	10.5	22	22	22	25	25
Delivered to Rotterdam	29	48.5	55.5	62.5	65.5	91	65	65	74.5	74	84	102	47	74
Transportation to Thames power stations	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8	9.8			not applicable		
Break-even cost delivered Thames	48.8	58.3	65.2	72.3	75.3	75.3	74.8	74.8				not applicable		

650,000 dwt vessels for U.S. to Rotterdam, 12,000 dwt for other routes

Source: Don Barnett, Macquarie University and FT International Coal Report



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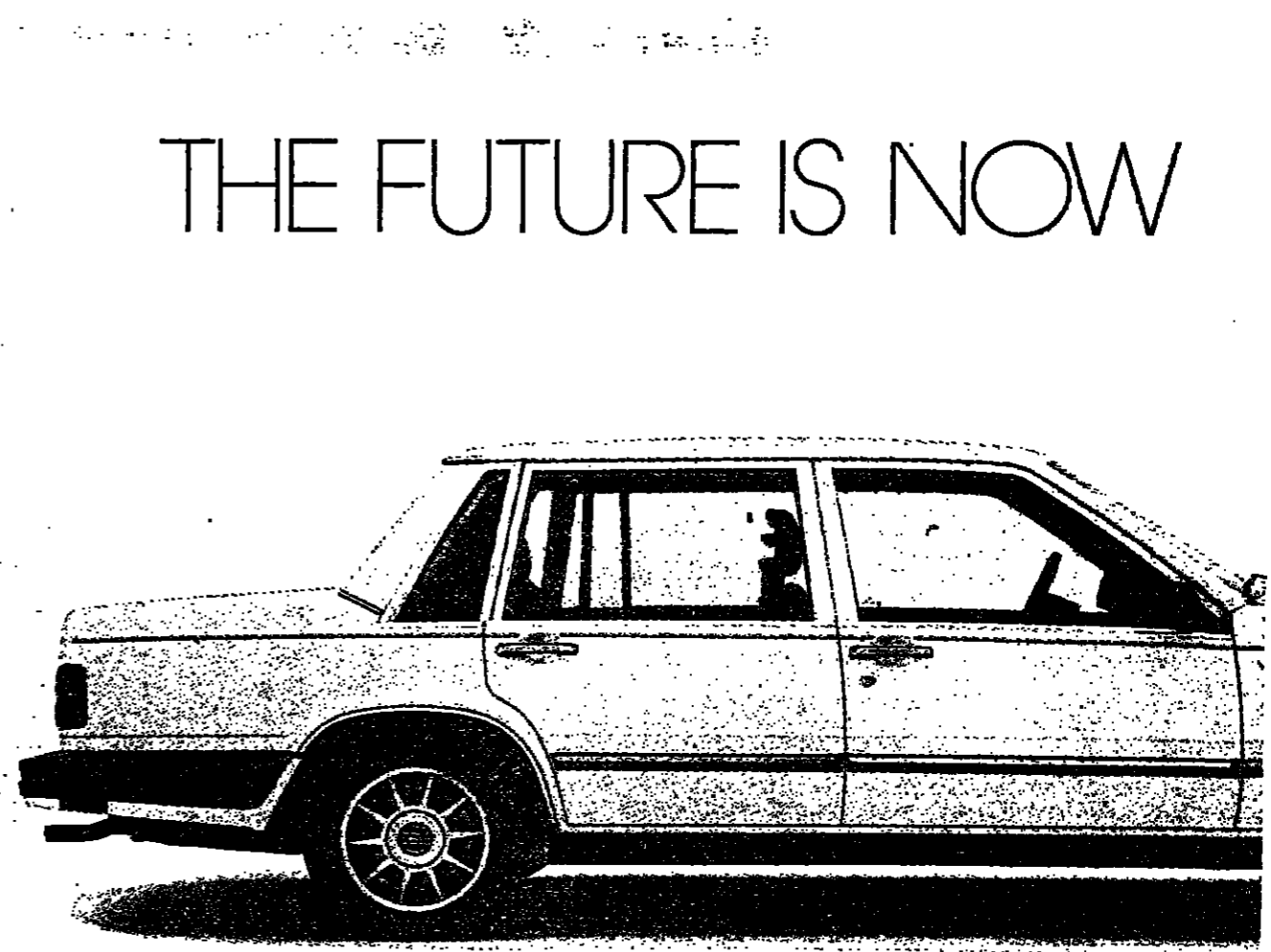
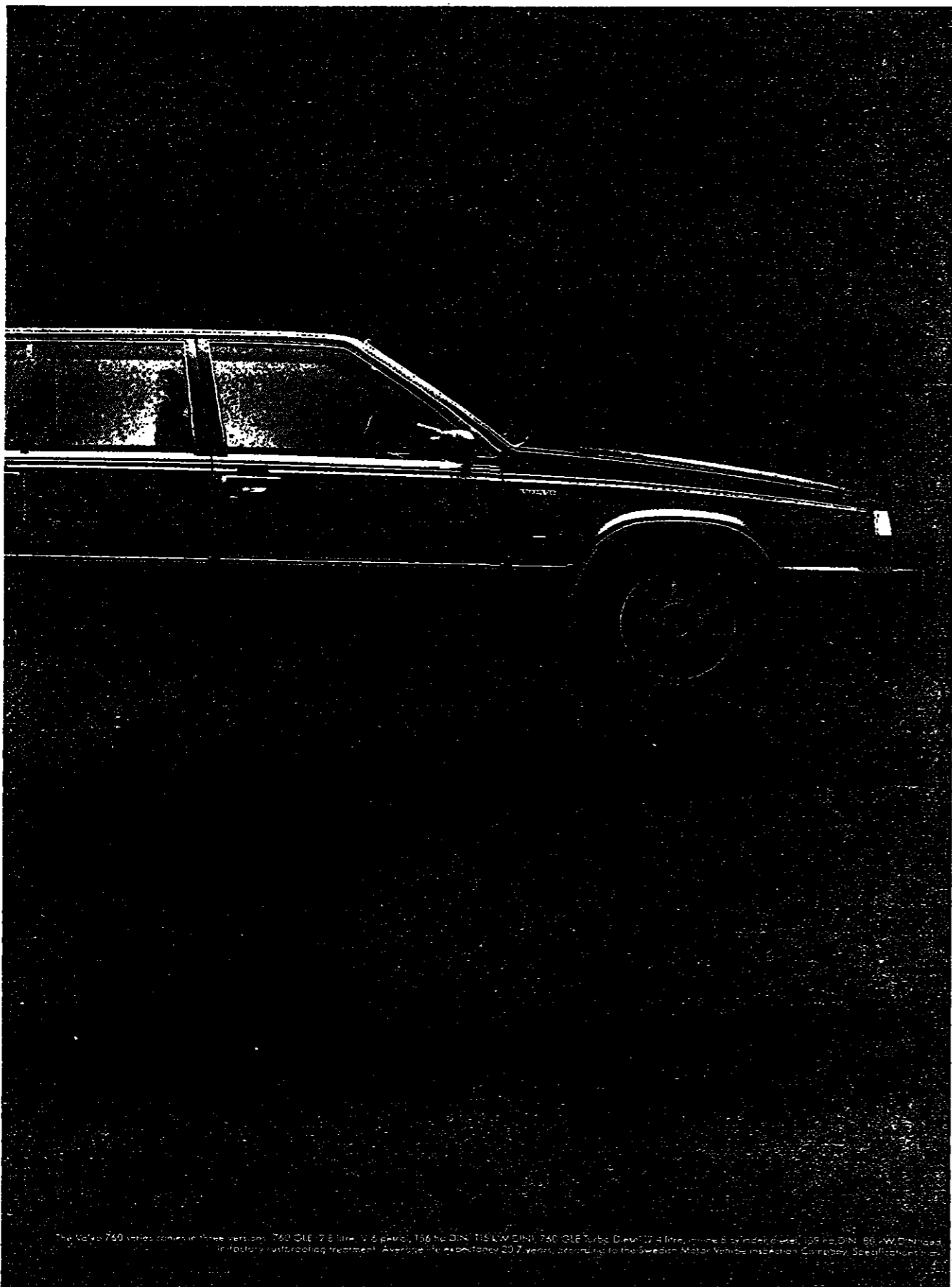
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They are angry because of what they have been told by their leaders.

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How many miners want this strike?

Nearly one third of the collieries have been producing coal. How many men in the striking pits actually want to go to work? Why has a national ballot been avoided?

How can miners defend their jobs by putting coal's customers out of business?

Two steel plants have stayed 100 per cent faithful to British coal: Scunthorpe and Llanwern, why should some miners put these and other steel plants at risk?

Are the striking miners killing future growth?

How will British industries turn over to coal if they are worried about being shut down? ICI were planning to convert their Wilton plant to coal — which would have meant an order of 460,000 tonnes of coal a year. Now they are having second

thoughts. Yet coal would be a much cheaper energy source for them than oil. For the same reason, during December — before the strike began — there were 78 applications from industrialists to convert to coal. Yet in the whole of April and May there were only six applications. And 22 more were withdrawn.

How long will this strike last?

On February 9, miners' leaders said that power plants had only 10 weeks stocks. In early May mineworkers were told they still had eight weeks' stocks. On June 26, it was claimed that coal shortages would cause power cuts by August. Yet the CEEGB reports that it has enough stocks to last at least until Christmas. Who — if anyone — can win a strike that lasts until Christmas?

Can the strike end the need to close uneconomic pits?

No — because it can't change a basic fact. Expensive coal is coal that can't be sold. By taking out our four million most expensive tonnes of production, we can get the average cost of our coal down — and thus make it easier to sell.

Are miners about to be thrown on the scrap heap?

Not one single compulsory redundancy has been asked for in the past three years. Or this year. About 20,000 jobs went last year — all of them on the basis of voluntary redundancy and all with very generous redundancy pay. We are sure that this year again there will be no compulsory redundancy. No one who wants to stay in the industry will be asked to leave. But if the strike continues, then up to 30 good pits could be closed forever by the lack of maintenance — and with them will go jobs that shouldn't be lost.

This strike — not the Coal Board — could butcher the industry.

That's why it is so important that this strike ends soon.

It was called by the miners' leaders. It now needs to be called off by the miners themselves.

NCB

**One in a series issued
by the National Coal Board.**

UK NEWS

People Express seeks second route to U.S.

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

PEOPLE EXPRESS, the U.S. airline which offers cheap flights between Gatwick Airport, London, and Newark, New Jersey, is planning to start a cheap service between Stansted in south-east England and Newark from November 1. Fares for the service have yet to be settled but will probably be less than £100 single, compared with £113 for the Gatwick-Newark route. Frequency of flights has also to be decided, but the airline is seeking a "no limitation" clause on that. A Boeing 747 will be used.

Application for an operating permit has been made to the UK Civil Aviation Authority. The airline does not expect difficulties in obtaining the permit, which it is seeking under the Anglo-U.S. Bermuda Two air services agreement.

People Express is also seeking improvements to its Gatwick-Newark licence, permitting daily flights next winter instead of the five flights a week at present permitted for the November-March period. It wants in addition "extra section" flights when justified by demand.

Mr Harold J. Paret, a managing officer of the airline, said yesterday that it had chosen London as its base for expansion of transatlantic operations because of the large volume of traffic.

He said the transatlantic load factors of People Express (the percentage of seats filled) had been well over 90 per cent every month this year and had reached 95-97 per cent for the early summer. It demonstrated a clear demand for the airline's type of cheap-fare operation.

People Express, he said, believed that by using Stansted as well as Gatwick it could tap an additional area north of London and into the Midlands. The airport lies east of London.

It also indicated the airline's belief that the future of Stansted airport was bright. More and more airlines were showing an interest in using the airport, especially for short-haul flights to and from the European Continent, which could connect with the People Express operation.

Dan-Air cuts Amsterdam fare

BY OUR AEROSPACE CORRESPONDENT

DAN-AIR, the independent airline, is to introduce new cheap fares on the routes between Amsterdam and Bristol, Cardiff, Teesside and Newcastle, using the British Aerospace BAe 146 four-engine jet regional airliner.

The airline's move follows the recent introduction of an "open skies" policy between the UK and the Netherlands, allowing UK and Dutch airlines freedom to fly between the two countries at cheap rates.

Dan-Air is offering excursion return rates of £60 from Bristol and Cardiff to Amsterdam, and £70 from Newcastle and Teesside, compared with the existing lowest excursion return rates of £102.

British Caledonian Airways (BCal) is planning a twice-daily service between Gatwick and Milan, from April, next year. The Civil Aviation Authority has granted BCal a UK licence for the route, but a reciprocal operating permit from the Italian aviation authorities is still required.

Accountants repeat win in management game

BY MICHAEL DIXON

THREE British accountants yesterday won the UK management championship for the second successive year.

In previous years all three have won the European management title when playing for separate teams.

The victory gave Mr Geoffrey Brown of Shell UK his third UK championship and Mr John Chappell and Mr Paul Webb their fourth.

The team won the £2,000 first prize after making a paper profit of £14.1m in the final of the national contest, which is sponsored annually by the Financial Times, ICL and the Institute of Chartered Accountants in England and Wales. The Confederation of British Industry and Institute of Directors are associate sponsors.

A £13.6m national profit gained the £1,000 second prize for four men from M & G, led by Christopher Eve, who came third in the computer-based contest last year.

Five teachers, led by Mr Rod Porter, from two comprehensive schools at Waltham Forest, Essex, won the £750 third prize. Mr Alan Rouseil, UK managing director of ICL, made what he called "an instant management decision" and gave their schools an ICL personal computer worth over £2,000.

The management team of the 160-year-old W.W. Johnson and Son agricultural company of Lincolnshire, under managing director Mr Richard Johnson, took the £500 fourth prize.

Cable licences extended

BY RAYMOND SNOODY

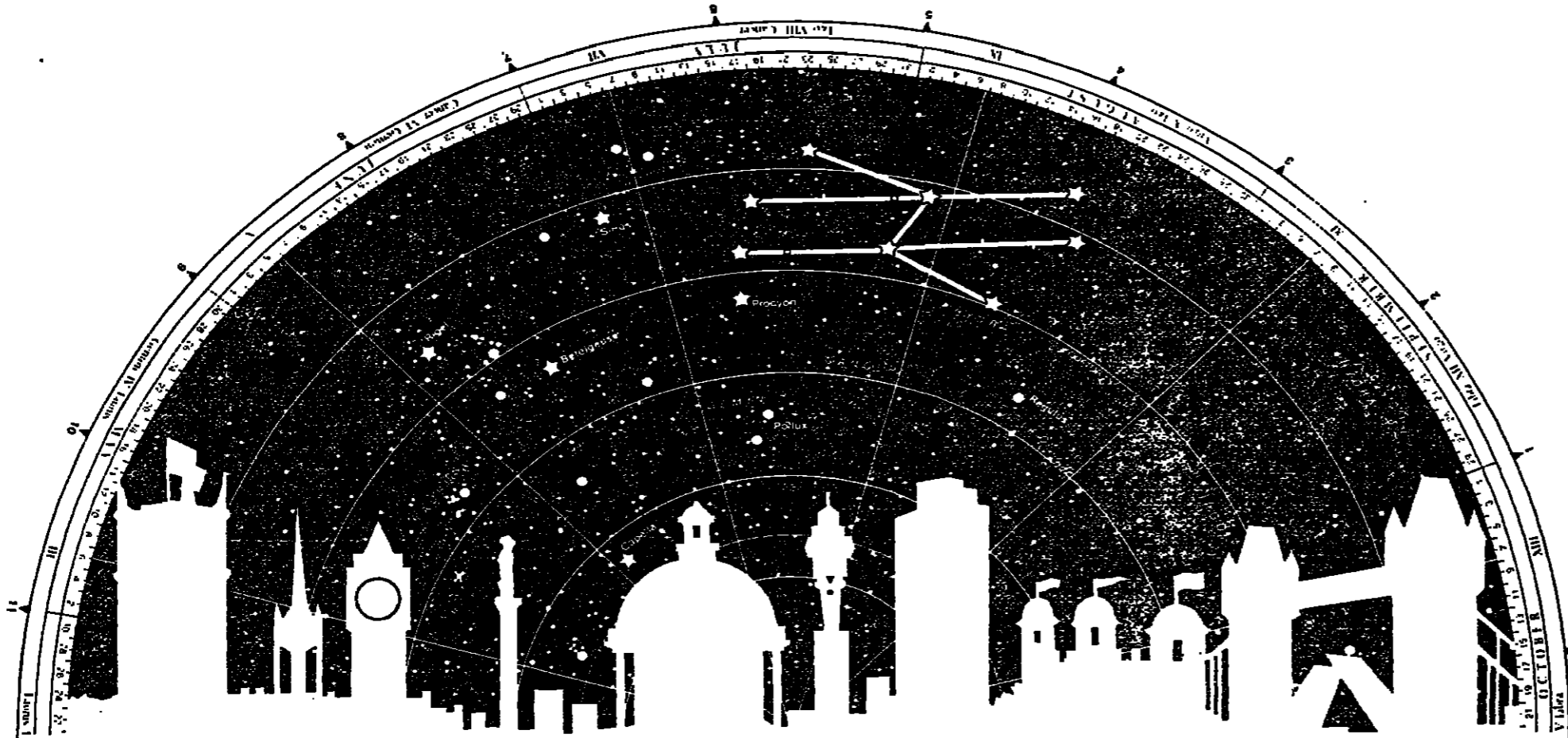
CABLE TELEVISION operators are to have the length of their initial licences extended from 12 to 15 years. Mr Leon Brittan, the Home Secretary, announced the concession yesterday.

The extension was hinted at last month by Mr Douglas Hurd, the Home Office Minister responsible for broadcasting, during the committee stage of the Cable and Broadcasting Bill. The change follows intensive lobbying by the cable industry after proposals in this year's budget to phase out capital allowances.

The cable industry believed that this decision could delay profitability of a cable operator by between two and three years.

A concession had been made in recognition of the fact that it will take some years for cable companies to recoup the heavy initial investment in establishing their services," the Home Office said yesterday. First holders of cable licences would now have a further three years in which profits could be made. The subsequent licence period would remain at eight years.

Mr Anthony Wheatstone, secretary of the Cable Association of Great Britain, yesterday welcomed the concession and said it removed some of the uncertainty surrounding cable. He believed that the Cable Bill now emerging was one that the cable industry could work with.



Prospects for the railway customer look much better.

The signs for the future of British Rail are encouraging. The results for 1983 were the best for 6 years. And the railway operating surplus of £62 million, before interest, was the largest ever recorded in the 21 year history of the Railways Board.

Overall the Board made a surplus of £8 million, a significant achievement when compared to the previous year's loss of £175 million.

In terms of investment too, British Rail is standing on its own feet.

Last year, all capital investment was funded entirely from within the business.

Increasing efficiency

In 1981 the railway was restructured into five manageable parts, three for the passenger business - InterCity, London and the South East, and Provincial Services - and one each for Freight and Parcels.

Each has a Sector Director responsible for meeting defined financial targets and levels of service.

This new structure has given the railways a much sharper commercial edge.

Throughout the business the operation has been streamlined by reducing

support for maintaining the national rail network.

This will not involve drastic service cuts, but will come mainly from increased efficiency and from more accurately matching service supply to customer demand.

Serving the Customer

A very bright future exists for an efficient, modern service that responds to customer demand.

"Our industry will prosper or decline according to whether we give our customers the service and quality they seek and whether they see it as value for money" (Chairman of British Rail, Dec '83).

This philosophy is already working well. The freight vehicle fleet, for instance, has been reduced by 55% since 1979 and is now better suited to Rail-freight's target markets. The improvement in freight vehicle utilisation averaged 14% annually between 1979-82 and rose to over 16% in 1983.

On the passenger business a 7% increase in traffic is forecast by 1986.

In truth, the prospects for the railway customer look much better.

the number of management levels. The result, is a more efficient railway, which gives better value for money.

The key to securing the future

With improving efficiency, new investment becomes the key to the future.

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UK NEWS

Enterprise Oil plans response to RTZ move

BY ALEXANDER NICOLL AND IAN HARGREAVES

SENIOR executives of Enterprise Oil yesterday planned their response to Rio Tinto-Zinc's (RTZ) bid to increase to 28.9 per cent its stake in the newly privatised oil company.

They did so against a background of City of London speculation that further surprises may be in store - which was partly confirmed yesterday when Norwich Union, the insurance company, announced it had acquired 21.2m shares in Enterprise, which represents 19 per cent of the company's equity.

To help to prepare a swift response to the RTZ bid, Enterprise appointed the merchant bank J. Henry Schroder Wegg as its financial adviser.

Mr Graham Hearne, Enterprise's chief executive, said the company would respond to the RTZ bid by the end of this week. The offer closes on Tuesday.

Mr Hearne said he had not talked to RTZ about its bid. He did not, however, rule out the possibility of a dialogue when Sir Alistair Frame, RTZ's chief executive, returns from Australia on Thursday.

Mr John Walsley, Enterprise's finance director, said the appointment of Schroder did not indicate any disagreement with Kleinwort Benson, the merchant bank which handled last week's ill-starred £302m sale of Enterprise shares to the public.

Enterprise, which did not have its own financial adviser during the flotation, said it could not use Kleinwort because it was an adviser to the Government on Enterprise. The Government holds a "golden share" in the company which it could, eventually, use to block a takeover.

The Government was yesterday stressing that it can play only a low-key role in the unfolding Enterprise drama. Faced with demands in the House of Commons from Mr Neil Kinnock, the Labour leader, for the privatisation programme to be halted, Mrs Margaret Thatcher, the Prime Minister, replied:

"Enterprise is now an independent British oil company. RTZ have not gained control. The Government clearly stated its intention in the prospectus that the company should be free from outside control in the early years - all that has been carried out successfully."

In the City, however, the air was thick with talk of possible deals between RTZ and Enterprise.

Enterprise itself took heart from the Norwich Union announcement, which it sees as the beginning of an institutional wave of confidence.

Mr Paul Lovett, an investment manager at the insurance group, said it had bought the shares as a long-term investment. He discounted suggestions that the company might be interested in Enterprise to fit with its own small portfolio of North Sea interests, which include a stake in the Forties field and some undeveloped exploration acreage.

The Enterprise shares will be held, he said, in Norwich's main life insurance fund, which also holds large stakes in several major oil companies, including BP, Norwich Union Hydrocarbons, the North Sea arm, is a separate venture.

Mrs Thatcher sails on, Page 15

Tougher defences in the fight against financial fraud

BY CHARLES BATCHELOR

THE SAME names crop up time and time again, but we never get a prosecution," a fraud squad officer said. "I don't see how we can track them down. We get to know about them via Interpol, but it is difficult to prove even if you know about the planning. All we have been able to do is spoil their plans."

Fraud squad officers are reluctant to admit in public the restraints on their efforts to bring fraudsters to justice for fear of encouraging the crime. Privately they acknowledge that many complex cases - particularly those which cross national boundaries - will never lead to a successful prosecution.

Often all the police can do is spoil the fraudsters' chances of success by warning as many of his potential victims as they can reach.

"We warn people and then close our books," said one officer. "We have frequent contact with the banks and can tell in 48 hours of the activities of any fraudster. A problem arises when bankers show people the door but don't warn the next bank."

Yesterday's announcement that a Fraud Investigation Group is to be set up to deal with serious financial fraud cases comes in response to a series of urgent appeals from the financial community and the regulatory bodies for more effective methods to combat fraud.

The team of lawyers and accountants to be attached to the department of the Director of Public Prosecutions (DPP) plans to co-ordinate on a permanent basis the previously ad hoc efforts of the Department of Trade and Industry (DTI) inspectors, the DPP office and the fraud squads to investigate particular cases. Between 25 and 30 extra staff will be taken on.

Some idea of the size of the problem can be gained from statistics released last month by the City of London police company fraud department. This showed that 103 cases were investigated last year, in the City alone, involving suspected fraud worth £115m.

Sixty-five arrests were made and 21 trials took place at Crown Courts in London and elsewhere. This takes no account of fraud being investigated by other police forces or the large amounts of undetected or unprosecutable fraud.

Advance fee fraud, one of the major areas dealt with by the fraud squad, frequently involves what one fraud officer calls "telephone number amounts" running into billions of dollars.

These do not appear in the official statistics. Fraudsters convince the governments of developing countries and business men that large loans can be arranged in return for an advance fee representing a small percentage of the promised loan. Once the advance fee has been paid the fraudster disappears and the loan evaporates.

Fraud comes in an increasing number of guises. One unit at the Metropolitan Police Fraud Squad looks at offshore banking fraud, travel agent fraud, general insurance fraud and advance fee offences.

Home Office crime figures show that the police recorded 123,000 cases of fraud or forgery in 1982 - many of them cheque or credit card fraud. No detailed statistics are kept on the extent of serious fraud or on the conviction rate when cases are brought to court.

The obstacles to a successful prosecution are many. They include:

- Restrictions on police powers to seize documents and question people about their contents. The Department of Trade and Industry can send in its inspectors at an earlier stage, but this can involve duplication of effort.
- Pressure of work on the Fraud Squads, the DTI and the Director of Public Prosecutions Office. The Metropolitan and City of London Police Fraud Squads number 150 officers. They can call on the DTI and DPP for specialist assistance but the officers themselves are not trained accountants and frequently spend relatively short spells of duty with the fraud squad before moving on.

Low bids for extra public spending

BY ROBIN PAULEY

EXTRA public spending bids of less than £3bn for 1985-86 will be considered by the Cabinet tomorrow, one of the lowest and least controversial "shopping lists" for more cash since the Government took office in 1979.

The Cabinet will give only cursory attention to the bids before authorising Mr Peter Rees, Treasury Chief Secretary, to hold a series of bilateral negotiations with spending ministers to cut some of the bids and accommodate others while sticking firmly to the 1984-85 spending total of £131.7bn. This is the latest White Paper (policy document) estimate of public expenditure at £132.9bn adjusted for national insurance changes made in the budget last March.

Mr Rees will start work immediately, although most of the argument will come after the summer holidays. He will report back to the Cabinet in the autumn.

There is a total of £2bn in bids from departments, other than the Environment Department's claim for an increase in the 1985-86 target for local authorities. The latter claim is close to being settled near the £800m to £900m mark and will form the basis of the 1985-86 rate support grant settlement - the money allocated from central government towards local authority expenditure.

Mr Norman Fowler's Department of Health and Social Security accounts for half of the £2bn. Most of his claim is for social security. This fall as it is partly the result of a higher estimate of the number of beneficiaries, a larger take-up of benefits and improvements to social security payments.

The smaller £200m to £300m part of Mr Fowler's claim is for additional resources for the National Health Service. He is keen to acquire this money but it may prove to be a tough battle as he has already had an extra £150m added to the original 1985-86 total for the health service.

Mr Fowler has been supporting Mr Rees in arguing for a lower extra amount for local government in the hope that less for local authorities might mean more for the health service.

The main surprise of the other bids is that the Defence Department's is described as "negligible", which has produced glee at the department with claims that Mr Michael Heseltine, the Defence Secretary, has now got spending firmly in his grip and relief at the Treasury that one of its largest annual problems has not surfaced this year.

Most of the other spending department bids - Scotland, Wales, education, agriculture, Home Office - are in the modest £50m to £100m bracket. Treasury optimism about settling without "blood" has increased as it has become clear that a lot of the extra bidding is removable "bluff and padding."

As there is a contingency reserve of £3.7bn for 1985-86, Mr Rees appears at first sight to have an easy Chief Secretary's summer in store, but the Treasury is adamant that a substantial part of this contingency must be preserved for true emergencies during the 1985-86 financial year. The local authority problem may have to be solved through the contingency and there may be a 1985-86 knock-on cost from the miners' strike, so acceptance of new bids may have to be paid for by cuts elsewhere.

Housing and the urban programme are again top of the list for further cuts. In addition, it is being emphasised in Whitehall that if, for example, the arbitrators offer the teachers more than the 4.5 per cent pay rise now on offer, local authorities will have to fund the award through cuts somewhere else. The contingency fund for 1985-86 is not available to help.

Howe condemns abuse of diplomatic privilege

THE GOVERNMENT may name the foreign missions in London whose diplomats are alleged to have flouted Britain's domestic laws, Sir Geoffrey Howe, the Foreign Secretary, said in the House of Commons last night.

In a written answer, Sir Geoffrey said: "I am giving further thought to the question of revealing the names of missions whose members are alleged to have committed offences."

His statement comes a few days after the all-party Commons select committee on foreign affairs was told that more than 500 offences, including rape and theft, had been committed in the past 10 years by diplomats based in Britain. Criminal charges had not been preferred against them because of diplomatic privilege.

Sir Geoffrey said he shared the concern of MPs at the number of offences as well as the sense of indignation at the abuse of diplomatic immunity.

The Foreign Secretary said he was not persuaded that it was right to name the individuals concerned, "since this would not be consistent with the long-established principle that a person is presumed innocent until proved guilty."

● VOTERS in Britain are more pessimistic about the economic outlook and dissatisfaction with the Thatcher Government's performance is increasing.

This is shown by the latest Market and Opinion Research International (MORI) survey in yesterday's Standard newspaper. The survey was conducted between June 21 and 25, after the results of the European elections were known.

● BERYL B, a £750m North Sea development platform designed almost to double output from the Beryl field, has started to deliver its first oil, the field's operator, Mobil, said.

Fact.
The personal computers which come quickest to mind are often surprisingly slow workers.

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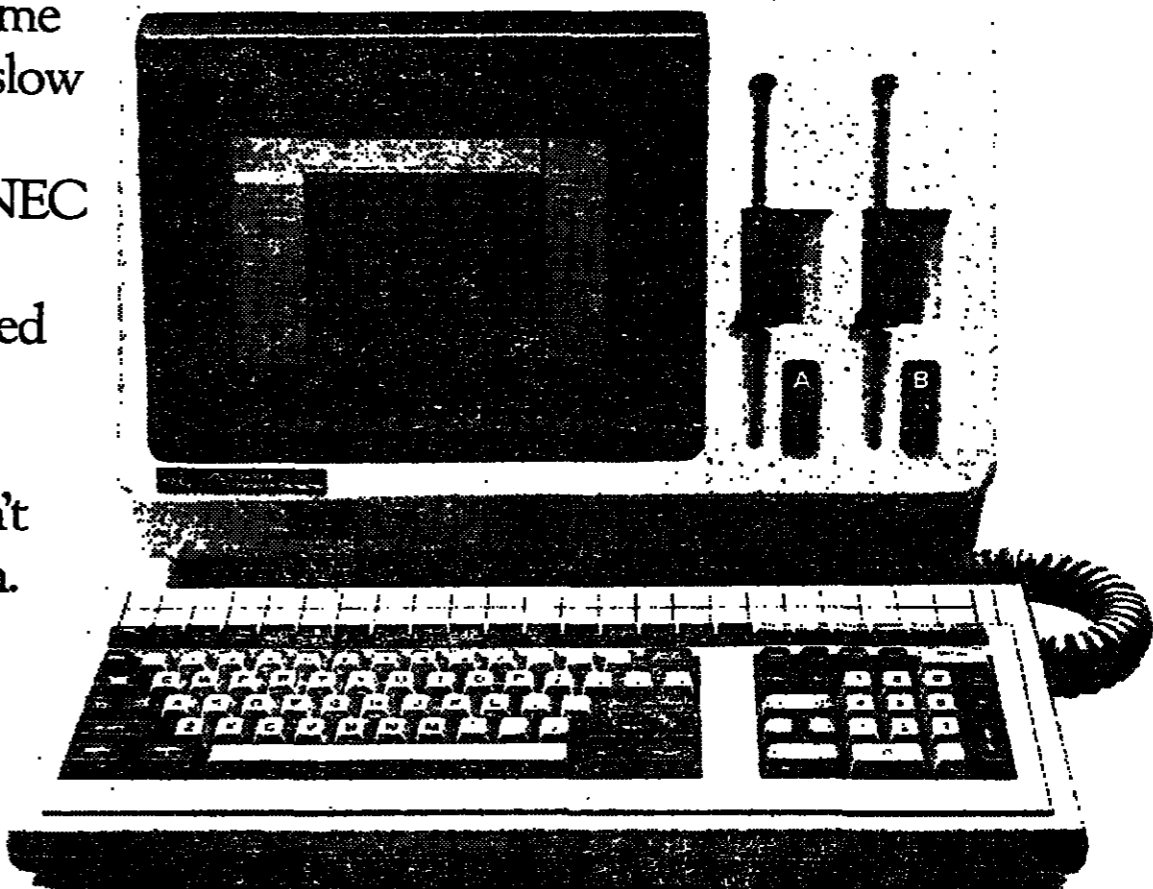
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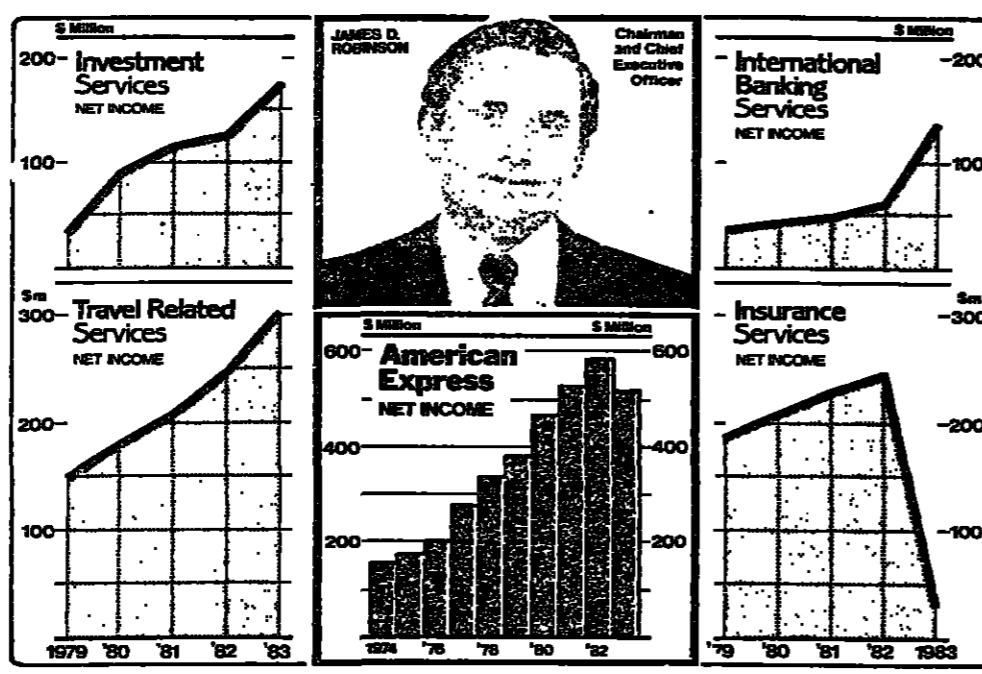
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THE MANAGEMENT

JUST WHEN it seemed that the American Express dream of building a highly profitable worldwide financial services empire from the bottom up was within reach, the great giant appears to have stumbled. Last year Amexco's earnings fell for the first time in 36 years—mainly because its Fireman's Fund insurance operations hit serious trouble. First quarter profits were also sharply lower and Amexco's share price has recently been bumping along near its 12-month lows. For most major corporations this would probably add up to a real body blow, sapping confidence and draining senior management strength. But not so, it seems, for American Express. In May the Amexco management, in turn swashbuckling snatched up Lehman Brothers, a blue-chip Wall Street investment banking partnership for \$366m. The new combined Shearson/Lehman/American Express now ranks as one of the largest and potentially most profitable full service securities firms on Wall Street. That move is being stretched too thinly," says Michael Fringuelli, a senior analyst with Salomon Brothers, the Wall Street securities firm. Amexco is particularly sensitive to such criticism. Robinson describes such "views as cosmetic" and says he doesn't accept them. "For sure we are challenged and stretched but in many ways we like it that way," he says. Peter Cohen, the 37-year-old head of Shearson, says he believes it is unlikely that Shearson, or Amexco, will take on any further major acquisitions, at least for the moment. "We have a lot of work to do and I don't see other parts of the company doing differently right now. I think we have our hands full." Nevertheless, he also adds that he would not consider the criticism valid until now. "I think if we did something from now on, it would be."



Amex: a strategy to test its management

BY PAUL TAYLOR

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insurance business "is not an issue." The Amexco chairman seems less sure about the company's other big loss-maker, its cable TV joint venture with Warner Communications which last year lost a cool \$98m. Robinson, who described the purchase of the 50 per cent stake in the cable group as "a tremendous acquisition," now admits "If I had to do it over again I wouldn't because with what we know now about the industry, we wouldn't want to be a player." His views today echo those of analysts who for years wondered what Amexco was doing with a cable TV operation anyway. Nevertheless, Robinson maintains that Drew Lewis, the former U.S. Transport Secretary, brought in last year as head of the joint venture to stem the food of red ink has "got the company turned around." Lewis has slashed jobs to cut overheads, begun renegotiating loss-making big-city cable TV franchises and begun the sale of the once prestigious Pittsburgh franchise. The picture is much rosier in Amexco's other core business segments. Under Lewis's leadership, the TRS flagships, the best of the TRS group, are being sold. Under Lewis's leadership, the best of the TRS group, are being sold. Under Lewis's leadership, the best of the TRS group, are being sold.

Business Travel advertisement for MICHELIN, HERTZ Rent a Car, CATHAY PACIFIC, EUROPCAR, and MIDLAND BANK.

TECHNOLOGY

DENTAL ADHESIVES PROMISE TO REVOLUTIONISE THE FILLING BUSINESS

Super gums sought for teeth

BY IAN HAMILTON-FAZEY

THE Wolfson Foundation is giving £132,000 to help Liverpool University and ICI beat Japanese and American competition in developing a new range of dental adhesives. The prize for winning the race is the lion's share of an inestimable worldwide market, simply by being first into it. The new adhesives are likely to revolutionise treatment and give ICI an important boost in the U.S.-dominated dental materials market. Conventional dental treatment relies on mechanical forces to keep fillings in place. The dentist excavates decayed matter and then makes the cavity inside the tooth bigger than the hole through which he works so that, once set, the filling will not fall out. This is usually done by using a healthy dentine base to be sacrificed to make the cavity big enough. No matter how well-filled the cavity, there may still be a microscopic gap—measuring as little as a few millionths of a metre—between the filling and the dentine. As most of us know from uncomfortable personal experience, this enables more bacteria to get in over time, necessitating re-excavation and re-filling. Why pharmaceutical companies are trying to find genuine adhesives for teeth is that they would form chemical bonds, so that fillings would not require mechanical means of retention. This would mean that cavities would not have to be enlarged to exceed the diameter of exit holes. There would be no gaps for bacteria to get into. However, even in an era of super-glues such dental adhesives are difficult to develop. Dr David Williams, an expert on the medical use of materials and who is a senior lecturer at Liverpool University dental school, says that there are three main problems. The first is hydrolysis: glues do not tolerate wet environments very well and though most of us may be dry-mouthed when we are at the dentist's, we usually don't stay that way for long. The second problem comes from the mechanical forces to which we subject our teeth when eating or, worse, grinding them in our sleep. The amount of a nut-crushing 350 meganewtons per sq metre. After that comes coping with wide temperature gradients—ranging roughly from ice cream



straight from the freezer to tea at near boiling point. These, of course, are the problems that have to be solved once the adhesive has been developed far enough to be used in the mouth at all. Before then, it has to satisfy rigorous tests of non-toxicity and it must behave quite untypically for a polymer by not generating much heat as it sets. The Wolfson money is to be used to recruit a polymer chemist to Dr Williams's team. The other members are a dentist, Mr John Cunningham, who teaches at the dental school, and Mr Joe Jaworsky, an adhesives specialist from ICI, whom the company is seconding to the project for the next four years. The other major technical



And gums the new adhesives cannot help...

Dr Williams says: "We are looking at very specifically functional monomers that are going to polymerise on the surface of the tooth. I can't say any more without giving clues to the opposition. There are a number of companies in the U.S. working in the field and a team at the University of Tokyo. If this were a 400-metre race, we could say we are all in the back straight and running hard." Where the new adhesives are likely to make their most important long-term impact is in children's dental health. Generally, anyone who can reach the age of about 20 without cavities will remain substantially free of them for life and keep their teeth. If the adhesives are developed and do their job, dentists will be able to "skim" children's teeth with them, filling in crevices where bacteria would gather to start the decay process. Good adhesives would also enable orthodontic wires to be glued into place and work more effectively in straightening teeth. In addition, they would enable the more effective repair or reconstruction of damaged teeth. Testing is taking place on extracted teeth, though Dr Williams says that promising results here must be treated with caution. In this field, proof of the product is quite literally in the eating: clinical trials would include extensive follow-up testing of how the adhesives have worked in practice over months of crunching and chewing. ICI is already making inroads into the dental materials market with Oclusin, a tooth-coloured filling material which is strong enough to withstand the forces generated between your back teeth when chewing. Normally, tooth-coloured composites are not strong enough for this and can only be used at the front of the mouth. Amalgam has to be used at the back. Oclusin began seven years ago and the product is in its third year of worldwide clinical trials. Most dental materials are made by American companies, some of which took over rival British and other European competitors during the past 20 years. The latest adhesives research would appear to be an attempt to attack markets by technological leapfrogging rather than through a "me too" product strategy.

ELECTRONIC OFFICE

Data General powers up its work stations

BY GEOFFREY CHARLISH

INCLUDED in a welter of enhanced product announcements from Data General are more powerful versions of the company's computer family, expanded capabilities for its "comprehensive electronic office" (CEO) and a new thrust into the CAD/CAM terminal market. The Eclipse MV/4000SC, for example, is a 32 bit minicomputer for up to eight users in commercial, office automation and technical applications. The company is claiming the industry's lowest cost per user in this area at a figure of £7,000 per workstation. The MV/4000SC can have up to four megabytes of main memory and a total of 77MB in 3.25 inch Winchester disc drives. Its power having it go positioned between the Desktop Generation microcomputers and the original Eclipse MV/4000. In the area of integrated software, a new product called CEO Decision Base consists of four components: a personal database, a spreadsheet, a report writer and a charting tool. The database gives the user the ability to define, create and manipulate data files; data can be moved easily from existing DG data management packages into CEO files and spreadsheets. Users can now access a specific application directly without exiting from the CEO package. They can manipulate and edit spreadsheets into documents and reports, says the company, without having to go through a multitude of time-consuming commands.

MACHINING Dual screen programmer

EUROPE EUROPE of High Wycombe has developed a powerful computer numerical control (CNC) called Uimax which it is integrating into a new generation of machining centres and electrical discharge machining tools. The device allows the machinist to program the complex parts in "conversational" mode using a dual screen display. While alpha numerics are entered on one screen, two and three dimensional views are simultaneously created on the other. The operator is therefore immediately aware of any errors in his program and can edit them out straight away. Editing is simple: a tracker-ball graphics cursor is roughly positioned over an element of the program which is then "zoomed" to a larger size on the screen. The cursor is fine-positioned, a search is initiated and the relevant data block soon appears on the text screen. As text corrections are made, the alterations appear immediately on the graphics screen.

EDITED BY ALAN CANE

INFORMATION

Desk top dish attracts dealers

ONLY A few months after its launch, Trendsetter, the latest financial data retrieval system from ADP Comtrend, seems to be earning its keep. It is now being used by 300 new clients in the U.S., 90 per cent of whom are receiving their information via satellite links. In the UK, where the satellite option will not be available until early 1985, eight new clients have been signed up in the three weeks since it was announced. Trendsetter exploits the power of two leading edge technologies—the professional personal computer and high-speed data transmission. The personal computer—executive workstation, you could call it—is built by Convergent Technologies and is reckoned to be one of the best of its kind on the market—it is offered by a whole string of large computer companies under their own personal computer, and is exciting the interest of the major banks as a treasurers' workstation. High-speed data transmission is catered for in the U.S. by satellite to a ground station, right on the customers' desk. It sounds unbelievably futuristic but ADP has customers there with dish antennae mounted on their desk beside their personal computers. As antennae go, they are quite small—only 18 ins or so in diameter, but a substantial addition to the usual clutter on the dealers' desk top. In the UK, it would be possible to provide the same service from an existing communications satellite but in practice Mr Ron Blonder, vice-president of ADP Comtrend, is waiting for the ITT satellite to be put into orbit. Comtrend claims to be the first company to provide real-time price data in high resolution graphics for intraday and historical price trend analysis for commodity markets. Trendsetter takes the whole concept a stage further by providing up to 100 separate "pages" of price and trading data which the user can program to his or her own specifications. There are tabular displays, graphical displays and the information can be stored in the computer for retrieval and analysis later.

POWER BROKERS TO THE WORLD advertisement for POWER PLANT.

Electronics Hitachi's big bubble

HITACHI has unveiled a four megabit bubble memory which has applications in telecommunications, personal computers, office equipment and automated machinery. Samples of the bubble memory will be available later this year. Another Japanese company, Fujitsu, is spending each year on maintenance memories of this size but Nippon Telegraph and Telephone (NTT) stopped research last March.

Tribology War on wear

THE INSTITUTION of Mechanical Engineers has declared war on wear. It is holding a conference with that title from September 17 which deals with the problems of the wear on machinery working in mineral extraction. In the UK alone, £600m is spent each year on maintenance of extraction and handling machinery. The institution says that better maintenance practice could save about 10 per cent of this sum annually. The conference will be held at Nottingham University and last for three days. More details from the institution in London on 01-222 7899.

Memories Winchester's

OUR ARTICLE on removable Winchester hard disk drives (June 26, 1984) quoted prices for devices from Intec and Vermont Research which did not relate to equivalent quantities. The one-off user price for Vermont 8520 is approximately £5,000. The smaller Intec 505 costs £2,700. In quantity, if the Vermont cost £2,500, the Intec would cost £1,100. Vermont sales is on 0372 376221; Intec on 01-761 5999.

UK PRIVATISATION: AFTER THE RTZ ROW

Mrs Thatcher sails on

By Peter Riddell, Political Editor

THE PROGRAMME AHEAD

(IN PROBABLE ORDER OF SALE)

Table listing privatization items: BRITISH RAIL SEALINK, BL JAGUAR, BRITISH SHIPBUILDERS, WARSHIPS, BRITISH TELECOM, BRITISH AIRWAYS, ROYAL ORDNANCE FACTORIES, BRITISH AIRPORTS AUTHORITY, NATIONAL BUS COMPANY, BL-UNIPART AND LAND ROVER, BRITISH STEEL (profitable parts).

Parts of electricity generation and gas production and marketing (possible eventually, depending on legislation).

Further tranches of existing partially privatised companies may be sold at any time.

The Government's next sale has not to be a big success. We cannot afford another row...

even though there are unusual points about the Enterprise Oil station because of the intervention of Rio Tinto-Zinc...

Britain—to support the issue. So, there are no indications of any second thoughts despite all the problems...

These issues also figure in the current Cabinet debate over the future of the gas and electricity industries...

Finance Bill

A way of getting out of the time trap

By Tim Eggar

LAST Wednesday at 3 am, the committee stage of the 1984 Finance Bill ended after almost 185 hours, the longest to date...

and both parties act accordingly. Curiously, it is the very lack of time which has contributed to a growing consensus in favour of reform...

controversial—at least in political terms. Yet what is technical to some, is political to others. There have been suggestions that "technicality" should be decided by an independent committee...

Naught for the widows

From Mr P. Richer. Sir, I refer to your legal correspondent's excellent article (June 14) entitled "Overdue debts: no right to interest"...

Letters to the Editor

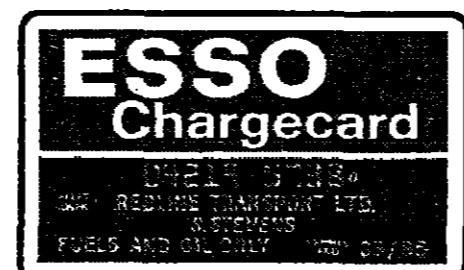
deed unreservedly, concur. I am extremely concerned, however, at the manner in which these earnings are taxed in the UK...

of the antiquated restrictions on double taxation relief. Carl Stitt, 28, The Avenue, Hatch End, Middx.

Asymmetry at the Treasury. From the Director of Operations Job Ownership. Sir—Not for the first time Samuel Brittan (June 21) has drawn our attention to the potential trade-off between employee ownership...

If you are a financial director...

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Esso Chargecard gives you complete financial control in one consolidated statement every fourteen days. Single VAT invoice incorporating all your fleet's Esso Chargecard purchases...

Table showing Esso Chargecard statement details: PETROLEUM CHARGE CARD LIMITED, STATEMENT/SALES INVOICE, columns for DATE, BALANCE, PAYMENT, etc.

Carrots and sticks

From Mr C. Stitt. Sir, I have just read the statement by Ian Stewart, Economic Secretary to the Treasury in response to an inquiry by the House of Commons...

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WESTDEUTSCHE LANDESBANK GIROZENTRALE YASUDA TRUST EUROPE LTD. Limited

June 29, 1984

INTL. COMPANIES & FINANCE

Touche Ross dismissed by BMF

BY DAVID DODWELL IN HONG KONG

BUMIPUTRA MALAYSIA Finance (BMF), the Hong Kong-based subsidiary of Bank Bumiputra Malaysia, has dismissed its auditors, Touche Ross, after taking exception to the qualification of its 1983 accounts.
In a nine-page rebuttal of Touche Ross seven-point qualification, Datuk Muzhir Arif, the BMF chairman, accused the accountancy group of "casting a complete pall over the integrity of all the companies' books of account..."

Mitsubishi Electric group ahead

BY ROBERT COTTRELL IN TOKYO

MITSUBISHI ELECTRIC Corporation, Japan's third largest electrical machinery maker, has reported group net profits of Y38.87bn (\$1.8bn) for the year to March, up 11 per cent from the previous year.
The company says exports accounted for 27 per cent of group sales, or Y499.4bn, a 28 per cent rise on the Y367.3bn for 1982-83.

NZ merger for Cerebos

By Chris Sherwell in Singapore

CEREBOS PACIFIC, the Singapore-based Asian arm of RHM of the UK, is to merge its New Zealand interests with Gregg's of Dunedin to form a new food and drinks company.

All of these securities having been sold, this announcement appears as a matter of record only.

June 27, 1984

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New Arab accounting body formed

BY BARRY RILEY

THE Kuwait-based accountant, Mr Talal Abu-Ghazaleh is pressing rapidly ahead with his plans to establish a new professional body for accountants in the Arab world despite opposition from other firms within the Arab accounting profession.
The council of the newly formed Arab Society of Certified Accountants (ASCA) is meeting in Paris this week to consider various developments including the establishment of a London centre and the setting up of an examination programme in co-operation with the Association of Certified Accountants, the second largest of the British accountancy bodies.



Talal Abu-Ghazaleh

Mr Abu-Ghazaleh has been in a strong position to get the new body off to a flying start. But his activities have produced an angry response from at least some members of the Federation. There appears to have been an attempt to have Mr Abu-Ghazaleh's membership of the Federation suspended or revoked at a meeting in Baghdad at the end of May.
Talal Abu-Ghazaleh himself says that he resigned on June 16 "to devote my full time to the Society." He regrets the Federation's "emotional campaigning" and argues that it would be better for the two organisations to compete in healthy rivalry rather than become involved in a feud.

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INTL. COMPANIES & FINANCE

Peter Montagnon on a Latin America specialist's expansion plans
Libra Bank looks beyond debt crisis

IT TAKES a great deal of confidence for a bank specialising in Latin America to think of expanding these days, but that is just what Libra Bank, the London-based consortium is doing. Last month it opened an agency in New York to reinforce its presence in the U.S.

Founded in 1972 with eight shareholders, Libra has always concentrated on Latin America, and has come to be recognised as one of the most successful of all the consortium banks spawned by the Euro-market boom of the 1970s.

At the end of last year, its total assets had grown to £1.77bn (£2.39bn) while pre-tax profits were £51m, somewhat down on the 1982 level of £83m, but still above their 1981 total of £27.6m.

Despite debt crisis, there is no mistaking the good morale that pervades the headquarters on London Wall. While other consortium banks—and even the Latin American departments of some large international banks—reel under the onslaught of debt rescheduling, Libra still comes across as a bank with a sense of purpose and direction.

At the end of March, Libra's non-performing loans amounted to only 1.6 per cent of its total loan portfolio in a U.S. accounting basis, while the bank was relying on shareholder deposits for only \$200m, or 10 per cent of its total funding.

So what has Libra got that other banks appear to lack? Mr Thomas Gaffney, the managing director, explains some of the thinking behind Libra's business approach, and three strands become immediately apparent.

First, the bank has a clearly defined strategy for dealing with both short-term problems and its long-term future; second it believes in a rigorous control of costs and has kept staffing to a minimum; third, it has a conservative accounting policy which has helped maintain the confidence of its depositors at a time of deep trouble for many of its clients.

Its decision to open an agency in New York fits in because it is designed to set up the bank to develop its business once the debt crisis is over. "The static world we're now facing won't continue for ever," says Mr Gaffney.

In New York, Libra will be able to open letters of credit in dollars, become involved in the bankers' acceptance market and the Federal funds market and finance trade between North and South America. The

emphasis is on classical, short-term, trade-related business. This can more easily be done from the U.S. than from London, which in the past has concentrated too much on large-scale balance of payments loans, he says.

Besides, official agencies are likely to play an increasing role in helping to finance Latin America, he argues. That means co-financing loans, in which commercial banks combine with the World Bank or the Inter-American Development Bank as well as the U.S. Eximbank and Commodity Credit Corporation related business, will become more important. A presence in the U.S. is a pre-requisite for any bank wanting to have a stab at this sort of business.

For the time being, however, Libra is more concerned with

ments as part of our earnings) and then wait until we're paid in cash."

At the end of last year Libra faced substantial arrears of interest payments both from Brazil and Argentina, and this largely explains its fall in reported pre-tax income.

Since then, Brazil has brought its interest payments up to date and Argentina has paid interest through to April 2. As a result, Libra's 1984 income has already received a boost that should help offset the impact of lower interest margins, as well as the new arrears being built up by Argentina.

Libra's loan portfolio grew by only 3 per cent in dollar terms last year, which largely reflected its participation in International Monetary Fund Coordinated new money facilities for debtors that have rescheduled. It has very little private sector business on its books, largely because it regards the risks as being too great, and the demands made by private sector lending on its management resources as too heavy.

Private sector business means visiting more clients and carrying out separate credit analysis for borrowers who may at the end of the day require a relatively small loan.

As the growth in its loan portfolio has slowed, Libra has directed its attention much more towards trading of assets, developing a role as an intermediary in interest rate swaps and in arranging swaps for other banks between private and public sector business.

It has also moved to boost its own liquidity by trading government securities, particularly U.S. Treasury issues and British Government stocks. Holdings of government securities more than doubled to £80.4m in 1983, from £40.6m at the end of 1982. Holdings of cash were also higher, at £285.7m compared with £205.7m. At the same time, Libra has moved to strengthen its capital

base. Shareholders agreed last year to capitalise retained earnings, bringing paid-in capital to £50m from £16.3m, while total shareholders' funds rose to £129m, from £113m.

The result is a well-capitalised, liquid bank with a strong earnings record. Its operating expenses were only 20 per cent of net interest income last year, and with only 150 staff its profit per employee is higher than at many larger banks.

But like other banks with a regional specialisation, it still suffers from a concentration of risks, and Libra has a policy of not diversifying just for the sake of spreading risks. "It's not necessarily a virtue," says Mr Gaffney. "It's more intelligent to do what you know and to do it well."

Partly, however, this approach also rests on the conviction that the Latin American countries with which Libra does business will continue to service their debts. Mr Gaffney believes that they will, although he concedes that they might need to be helped through some sort of IMF facility to offset the high real interest rates they now face on their foreign debt.

In the last analysis Libra could not protect itself against a general repudiation of Latin American debts, or against a unilateral decision by the borrowers to pay interest at a rate of, say, only 5 per cent. "No bank could cope with that," says Mr Gaffney.

Meanwhile there is a certain advantage to being small and flexible in today's world. When the Euro-market is providing a regular flow of new business there is less pressure to take strategic decisions about the future; it is when things start to go wrong that the real challenge begins.

That is why the debt crisis has forced Libra's management to show its mettle, and why, despite the traumas of the past two years, morale has remained intact.



Thomas Gaffney


steering a path through the maze of difficulties created by the Latin American debt crisis. In this it was helped last year by the increase in interest margins paid by Latin American borrowers that have rescheduled their debts.

Now that Mexico is to be offered a preferential deal by its bankers incorporating a multi-year rescheduling at much lower margins, these earnings seem likely to drop, but Libra still expects to get by without much impact on its declared profits.

One reason for this is that by most standards its accounting policies are conservative. Unlike U.S. banks, Libra does not wait until 90 days are up before declaring its loans as non-performing. "On any loans that people don't pay on the due date we reverse all the accruals. We stop accruing interest pay-

LIBRA BANK	1980	1981	1982	1983
	£m	£m	£m	£m
Total assets	718	1,106	1,404	1,771
Cash or equivalent and deposits with banks	179	242	292	407
Loan portfolio	510	792	1,050	1,328
Pre-tax earnings	22.8	27.6	38.3	31.1

Libra shareholders are: Chase Manhattan, Mitsubishi Bank, Royal Bank of Canada, Swiss Bank Corporation, WestLB, Banco Itaú, Bancamer, Credito Italiano, Banco Espírito Santo e Comercial de Lisboa, National Westminster.



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4th July, 1984



MONTE DEI PASCHI DI SIENA

Bank founded in 1472


Accounts

at December 31, 1983

	Lit. million
Saving deposits and current accounts	13,761,058
Bonds	2,239,310
Reserve funds	1,800,459
Total available funds	28,837,786
Loans and advances	7,626,341
Security holdings	10,122,034
Net profit	24,955

The "Monte dei Paschi Banking Group", which includes MONTE DEI PASCHI DI SIENA, BANCA TOSCANA, CREDITO COMMERCIALE, CREDITO LOMBARDO, ITALIAN INTERNATIONAL BANK Ltd.

showed, at 31st December, 1983, total deposits in excess of £10,000,000,000.



Record for 3i after two years of declining profits

BY TIM DICKSON

AFTER two years of declining profits, the Investors in Industry Group (3i) yesterday reported record results for the 12 months to March 31...

which were slightly lower than the £30.8m reported for 1983. Lord Caldecote states in 3i's annual report that at £263m for the year just ended...

BOARD MEETINGS

Table with columns for Company Name and Date. Includes entries like Barclays Bank, British Overseas Airways, etc.

1983/84. As the economy has slowly moved out of recession, 3i says it does "a more entrepreneurial spirit emerging, encouraged by the Government's emphasis on...

Argus makes ninth U.S. purchase in 18 months

Argus Press Holdings, the publishing arm of British Electric Traction (BET), has paid \$22m (£16.5m) for Farm Press Mississippi...

Glanfield Lawrence

Mr David Brooks has purchased 360,000 ordinary shares in Glanfield Lawrence, the motor vehicle distributor and engineering group...

Asian hoteliers build up their Rowton interests

TWO ASIAN hoteliers yesterday revealed they had bought sizeable holdings in Rowton Hotels, where the board has been split by an internal row...

Funds disclose holdings following panel ruling

LARGE FUNDS are for the first time revealing substantial shareholdings in public companies, which they hold on behalf of clients...

Chairman of Currys

Mr W. J. (Jeff) Benson has been appointed chairman of CURRY'S GROUP. He succeeds Mr Dennis Curry, chairman for the past 16 years...



Mr Jeff Benson, new chairman of Currys Group

BROWN SHIPLEY LIFE AND PENSIONS is to assume administrative responsibility for the trustee and tax service function of Brown Shipley and Co...

INTERVISION VIDEO (HOLDINGS) has appointed Mr Jarvis Astaire its chairman. Mr Bev Ripley, managing director, has been appointed deputy chairman...

The LONDON INVESTMENT TRUST, a financial services group with commodity clearing and broking operations in the UK and the US...

Mr Brian H. Weston has been appointed chairman and managing director of HFC TRUST AND SAVINGS. He succeeds Mr Ian Marindale...

Mr Jack Andrews has been appointed as director of progress for SHAW CABLE. He was previously controller of programme administration at the BBC...

Mr Norman Hay has been appointed chairman and managing director of TSB TRUST CO, the insurance and unit trust arm of the TSB Group...

Mr A. J. Cross is joining the board of THE BIRMINGHAM MINT on July 1 as a non-executive director. He is chairman and chief executive of Centreway Trust and Centreway Industries...

CASKELL & CHAMBERS, a member of the MKR Group, has appointed Mr P. A. M. Barham as managing director. He joins after a five-year period working with other companies in the group...

The Trade Secretary has re-appointed Miss Felicity Green and Mrs Rosalind Hart as members of the board of the NATIONAL FILM FINANCE CORPORATION for one year from March 1 1984 and May 1 1984 respectively...

The FACULTY OF ACTUARIES, Edinburgh, has re-elected Mr A. D. Shedd as president for the session 1984-85...

PHOTOME INTERNATIONAL has appointed Mr David W. Miller and Mr Terence M. Chate CO. (CITY) on August 1. For the past five years he has been marketing director of V. A. T. Watkins. Mr Donald Street, currently senior contracts manager at Donald Macpherson City, will be invited to join the board next year as contracts director, at which time Mrs Valerie Lavers will become company secretary...

Mr John Dolby will join the board of H. FAIRWEATHER & CO. (CITY) on August 1. For the past five years he has been marketing director of V. A. T. Watkins. Mr Donald Street, currently senior contracts manager at Donald Macpherson City, will be invited to join the board next year as contracts director, at which time Mrs Valerie Lavers will become company secretary...

Placing values Bush at £8m

BUSH RADIO, a consumer electronics company which first made its mark on the industry when it bought the Bush name from the giant Rank Organisation...

managing directors, Mr Richard Schlagnam and Mr Mark Futter, are each selling £1m worth of shares and a further £662,000 is being raised after expenses for the company...

The total purchase price was £800,000, of which Bush has so far paid £250,000. The company's products, which include radios, radio cassette recorders, radio alarm clocks and music centres, are made by subcontractors in the Far East to Bush designs. The company imports and distributes them to High Street retailers...

BIDS AND DEALS IN BRIEF

Barr & Wallace Arnold Trust has sold the business, assets and name of its subsidiary Data Sciences International to Nickless Computer Services for a consideration which will amount to approximately £1.4m in cash...

GT INVESTMENT FUND

Registered Office: 2, boulevard Royal, Luxembourg Commercial Register: Luxembourg B 7.443. The quorum required by law not having been reached at the first Extraordinary General Meeting of Shareholders held on June 15th, 1984, the shareholders are invited to attend a SECOND EXTRAORDINARY MEETING OF SHAREHOLDERS...

World Aerospace conference advertisement. Includes title 'World Aerospace: Aerospace after the Recession', dates '28, 29 & 30 August', location 'London', and a list of speakers including Sir Austin Pearce CBE, Mr Bernard Lathiere, Mr Arthur E Wegner, Mr Mike Pelehach, Mr Knut Hammarskjold, Dr Julius Maldutis, Mr Colin M Marshall, Sir Adam Thomson CBE, Mr Heinz Ruhnau, Mr Edward W Stimpson, Sir Philip Foreman CBE, Mr Duncan R Y Bluck, Mr Norman J Payne CBE, Mr John Dent CBE, Mr Jordan A Greene, and Mr Erik Quistgaard.

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices, July 3

12 Month High	Low	Stock	Dr. Yr. %	12 Month High	Low	Stock	Dr. Yr. %	12 Month High	Low	Stock	Dr. Yr. %
12.00	11.00	AA	10.0	12.00	11.00	AA	10.0	12.00	11.00	AA	10.0
11.50	10.50	AA	10.0	11.50	10.50	AA	10.0	11.50	10.50	AA	10.0
11.00	10.00	AA	10.0	11.00	10.00	AA	10.0	11.00	10.00	AA	10.0
10.50	9.50	AA	10.0	10.50	9.50	AA	10.0	10.50	9.50	AA	10.0
10.00	9.00	AA	10.0	10.00	9.00	AA	10.0	10.00	9.00	AA	10.0
9.50	8.50	AA	10.0	9.50	8.50	AA	10.0	9.50	8.50	AA	10.0
9.00	8.00	AA	10.0	9.00	8.00	AA	10.0	9.00	8.00	AA	10.0
8.50	7.50	AA	10.0	8.50	7.50	AA	10.0	8.50	7.50	AA	10.0
8.00	7.00	AA	10.0	8.00	7.00	AA	10.0	8.00	7.00	AA	10.0
7.50	6.50	AA	10.0	7.50	6.50	AA	10.0	7.50	6.50	AA	10.0
7.00	6.00	AA	10.0	7.00	6.00	AA	10.0	7.00	6.00	AA	10.0
6.50	5.50	AA	10.0	6.50	5.50	AA	10.0	6.50	5.50	AA	10.0
6.00	5.00	AA	10.0	6.00	5.00	AA	10.0	6.00	5.00	AA	10.0
5.50	4.50	AA	10.0	5.50	4.50	AA	10.0	5.50	4.50	AA	10.0
5.00	4.00	AA	10.0	5.00	4.00	AA	10.0	5.00	4.00	AA	10.0
4.50	3.50	AA	10.0	4.50	3.50	AA	10.0	4.50	3.50	AA	10.0
4.00	3.00	AA	10.0	4.00	3.00	AA	10.0	4.00	3.00	AA	10.0
3.50	2.50	AA	10.0	3.50	2.50	AA	10.0	3.50	2.50	AA	10.0
3.00	2.00	AA	10.0	3.00	2.00	AA	10.0	3.00	2.00	AA	10.0
2.50	1.50	AA	10.0	2.50	1.50	AA	10.0	2.50	1.50	AA	10.0
2.00	1.00	AA	10.0	2.00	1.00	AA	10.0	2.00	1.00	AA	10.0
1.50	0.50	AA	10.0	1.50	0.50	AA	10.0	1.50	0.50	AA	10.0
1.00	0.00	AA	10.0	1.00	0.00	AA	10.0	1.00	0.00	AA	10.0
0.50	0.00	AA	10.0	0.50	0.00	AA	10.0	0.50	0.00	AA	10.0
0.00	0.00	AA	10.0	0.00	0.00	AA	10.0	0.00	0.00	AA	10.0

Continued on Page 27

AMERICAN STOCK EXCHANGE COMPOSITE CLOSING PRICES

Closing prices, July 3

Table of American Stock Exchange Composite Closing Prices for July 3, 1984. Columns include 12 Month High/Low, Stock Name, Div. Yld., P/E, 100s High, and Date. Rows are organized by industry sectors such as A-C, D-G, H-K, L-N, O-Q, R-S, T-V, W-X, and Y-Z.

Continued on Page 28

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

Table of New York Stock Exchange Composite Closing Prices for July 3, 1984. Columns include 12 Month High/Low, Stock Name, Div. Yld., P/E, 100s High, and Date. Rows are organized by industry sectors such as A-C, D-G, H-K, L-N, O-Q, R-S, T-V, W-X, and Y-Z.

Notes: Figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest statement.

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WORLD STOCK MARKETS

AUSTRIA

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include Creditanstalt, Oeser, Interbank, etc.

BELGIUM/LUXEMBOURG

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include ARBED, Bank Int'l Lux, Belfrage, etc.

Denmark

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include Aarhus Olie, Aalborg Portland, etc.

FRANCE

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include Emprunt 4 1/2 1975, Elf, etc.

NETHERLANDS

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include ADF Holding, Alkermid, etc.

GERMANY

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include AEG Tele, Allianz, etc.

ITALY

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include Banca Com'l, Eni, etc.

SPAIN

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include Ducha Baboco, Deutsche Bank, etc.

SWEDEN

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include AGA, Astra, etc.

SWITZERLAND

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include Aluuisse, Bank Leu, etc.

AUSTRALIA

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include ANZ Group, Acrow Aust, etc.

AUSTRALIA (continued)

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include Gen Prop Trust, Mitsui Estate, etc.

JAPAN

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include MHI, Nippon Denso, etc.

NORWAY

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include Bergen Bank, Christiania, etc.

HONG KONG

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include Bank East Asia, Citicorp, etc.

JAPAN

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include Aisin, Daihatsu, etc.

SOUTH AFRICA

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include ABC, AE & Co, etc.

SINGAPORE

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include Boustead Hldgs, Cold Storage, etc.

SOUTH AFRICA

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include ABC, AE & Co, etc.

SOUTH AFRICA

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include ABC, AE & Co, etc.

SOUTH AFRICA

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include ABC, AE & Co, etc.

SOUTH AFRICA

Table with columns: July 3, Price, +/- or, %chng. Stocks listed include ABC, AE & Co, etc.

OVER-THE-COUNTER

Large table with columns: Stock, Sales, High, Low, Last, Chng. Lists various over-the-counter stocks and their performance.

Nasdaq national market, 2.30pm prices

Table with columns: Stock, Sales, High, Low, Last, Chng. Lists Nasdaq national market prices as of 2:30pm.

Indices

Table with columns: Index, July 3, July 2, June 29, June 28, June 27, June 26, June 25, June 24, June 23, June 22, June 21, June 20, June 19, June 18, June 17, June 16, June 15, June 14, June 13, June 12, June 11, June 10, June 9, June 8, June 7, June 6, June 5, June 4, June 3, June 2, June 1, 1984. Includes NYSE, Dow Jones, S&P 500, etc.

AMERICAN STOCK EXCHANGE CLOSING PRICES

Table with columns: 12 Month High, Low, Stock, Div. Yld. E, P/E, High, Low, Close, Chng. Lists American stock exchange closing prices.

NEW YORK - DOW JONES

Table with columns: Jul 3, Jul 2, Jun 29, Jun 28, Jun 27, Jun 26, Jun 25, Jun 24, Jun 23, Jun 22, Jun 21, Jun 20, Jun 19, Jun 18, Jun 17, Jun 16, Jun 15, Jun 14, Jun 13, Jun 12, Jun 11, Jun 10, Jun 9, Jun 8, Jun 7, Jun 6, Jun 5, Jun 4, Jun 3, Jun 2, Jun 1, 1984. Includes Dow Jones Industrial Average, etc.

WORLD VALUE OF THE DOLLAR

Table with columns: Month, Year, High, Low. Lists world value of the dollar for various months and years.

INTERNATIONAL GUIDE TO THE ARTS

Table with columns: Country, City, Date, Event. Lists international arts events and exhibitions.

Continued on Page 30

Vertical text on the right edge of the page, possibly a page number or reference.

These securities were offered and sold outside the United States.
This announcement appears as a matter of record only.

U.S. \$75,000,000

V Vizcaya International N.V.
Guaranteed Floating Rate Notes Due 1996
(Redeemable at the option of Noteholders in 1992 and 1994)

Unconditionally Guaranteed by

Banco de Vizcaya, S.A.

Lehman Brothers International
Shearson Lehman American Express Inc.

Orion Royal Bank Limited

Mitsubishi Finance International Limited

- | | |
|---------------------------------------------|----------------------------------------------|
| Arab Banking Corporation (ABC) | BankAmerica Investment Banking Group |
| Bank of Tokyo International Limited | Bankers Trust International Limited |
| Banque Bruxelles Lambert S.A. | Banque Paribas |
| Chemical Bank International Group | Barclays Bank Group |
| Fuji International Finance Limited | County Bank Limited |
| Kidder, Peabody International Limited | Gulf International Bank B.S.C. |
| LTCB International Limited | Korea Exchange Bank |
| Morgan Grenfell & Co. Limited | Mitsui Finance International Limited |
| | The National Bank of Kuwait S.A.K. |
| Nippon Credit International (Hong Kong) Ltd | |
| Sanwa Bank (Underwriters) Limited | Société Générale |
| Standard Chartered Merchant Bank Limited | Sumitomo Finance International |
| Svenska Handelsbanken Group | Swiss Bank Corporation International Limited |

May, 1984



The Bermuda Housing Corporation

U.S. \$75,000,000

Medium-term credit facility

Guaranteed by

The Government of Bermuda

ARRANGED BY:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK

FINANCED BY:

- MORGAN GUARANTY TRUST COMPANY OF NEW YORK
- THE BANK OF NOVA SCOTIA
- NATIONAL WESTMINSTER BANK GROUP
- ORION ROYAL BANK LIMITED
- N. M. ROTHSCHILD & SONS LIMITED
- UNION BANK OF SWITZERLAND

AGENT:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK

This announcement appears as a matter of record only.

May 1984

SOLVAY in 1983:

**Continued expansion.
The Group's profitability surged and consolidated net results doubled.**

Confirmed recovery

1983 saw most sectors of activity emerging from the recession, with a marked improvement in the chemical industry. The favourable international business climate greatly contributed to the financial strengthening of many chemical concerns during the year. On top, rationalization of the industry was carried out through restructuring and reorganization of activities and steps were taken to improve efficiency in energy consumption and manpower utilization.

Efforts continue to pay off

The favourable effect of measures taken by Solvay in these fields became apparent in 1982 and persisted in 1983, to the advantage of results for the year. In addition, some beneficial factors intervened to put the plastics sector back on its feet again: industry-wide restructuring, undertaken in the European chemical industry since 1982; recovery of PVC prices in Europe and increased demand, most notably for polyolefins.

The Group's plastics processing business also expanded, with sales of decoration and "do-it-yourself" products, as well as car parts, improving. Profits from operations in basic chemicals, most of which had been spared the ill effects of the 1982 crisis, were at a satisfactory level.

Keys to the Group's success

One of the Group's chief strengths is its presence in the heavy chemicals business, with manufacturing facilities well adapted to markets, whether they be located in Europe or overseas. Another important Group asset is the traditional Solvay high technology know-how, guaranteeing continuous improvement in production processes, thereby securing numerous entries into upcoming growth areas.

R & D to break new ground

The Group's laboratories ensure a permanent renewal of the product range by substitution of new for old items. This explains

Solvay's progress in the pharmaceutical and animal health sectors, as well as in specialty chemicals and plastics, less sensitive to economic trends. Solvay is actively engaged in biological sciences and biotechnology. It recently set up a genetic engineering laboratory, where genetic scientists work on industrial applications of biochemical developments, in co-operation with American universities and the Paris Institut Pasteur.

A promising future

The Solvay Group has proved its ability at mastering technological development and economic constraint. More challenges lie ahead but Solvay and its highly motivated and qualified staff will pursue all efforts required to meet whatever the future has in store.

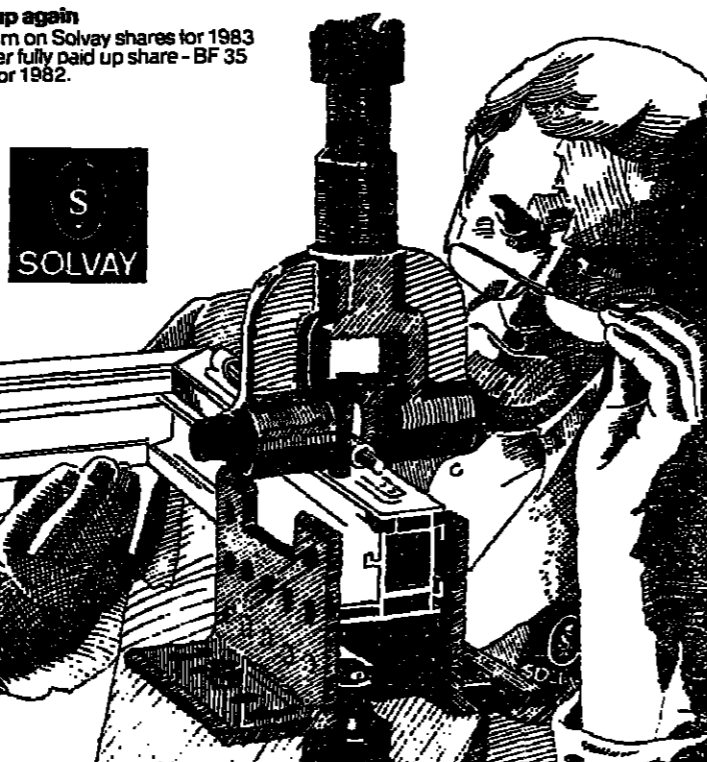
Dividend up again

The net return on Solvay shares for 1983 is BF 235 per fully paid up share - BF 35 more than for 1982.

Key figures

In millions of BF	1983	1982
Sales	198,742	177,734
Research expenditure	6,438	5,988
Personnel expenditure	49,483	47,129
Capital expenditure	7,942	7,025
Group's consolidated net result	5,246	2,593
Solvay & Cie's net result	2,962	2,200
Staff		
Persons employed	44,186	45,369

The Annual Report of Solvay & Cie is available in French, Dutch, English and German on request from: Secrétaire Générale de Solvay & Cie, Rue du Prince Albert 33, B-1050 Brussels



KB KREDIETBANK
Higher Net Profit and increased Net Dividend

Some key figures from the balance sheet at 31 March

(in millions of Belgian francs)	1984	1983	1980	1975
Capital, reserves and subordinated loans	22,510	17,272	14,826	7,476
Working funds	670,711	597,569	391,834	185,929
Credit to the				
• private sector	297,053	275,942	201,519	90,681
• public sector	256,355	205,597	135,141	70,766
Profit for the financial year	1,912	1,703	1,735	950
Balance-sheet total	729,710	646,337	429,860	207,138
Net dividend (BEF)	387	365	355	245
Staff	8,800	8,566	8,433	8,035
Number of branches	759	755	739	694

Useful addresses

- Head office**
Arenbergstraat 7, B-1000 Brussels (Belgium)
- Branches**
759 branches in Belgium
- Abroad**
Kredietbank New York Branch, 555 Madison Avenue, 5th floor, New York, N.Y. 10022
Kredietbank Depository Agency, Crocker Center Tower 1, Suite 3940, 333 S. Grand Avenue, Los Angeles, Ca. 90071-3198
Kredietbank Grand Cayman Branch, P.O. Box 694, George Town, Cayman Islands
Kredietbank (O.B.U.) Bahrain, Salahuddin Building, P.O. Box 5456, Manama, Bahrain
- Subsidiaries**
In Belgium
Crédit Général S.A. de Banque, Grote Markt 5, B-1000 Brussels
Hypotheek- en Spaarmaatschappij van Antwerpen, Mechelsesteenweg 176-178, B-2000 Antwerp
Bemab N.V., Torengelbouw, B-2000 Antwerp
Alekra N.V., Torengelbouw, B-2000 Antwerp
- Abroad**
Irish Intercontinental Bank Ltd, 91 Merrion Square, Dublin 2
iB-Financo, 91 Merrion Square, Dublin 2
Bankverein Bremen AG, Wachtstrasse 16, Postfach 107420, D-2800 Bremen 1
S.A. Gestion KB Income Fund, 37 rue Notre-Dame, Luxembourg
S.A. Gestion KB Capital Fund, 37 rue Notre-Dame, Luxembourg
Eunvest, 37 rue Notre-Dame, Luxembourg
KB Internationale Financieringsmaatschappij, Eduard van Beinumstraat 2, 1077 XT Amsterdam
- Associated Banks**
Kredietbank S.A. Luxembourgeoise, 43 Boulevard Royal, Luxembourg
Kredietbank (Suisse) S.A., 7 Boulevard Georges-Favon, CH-1211 Geneva 11

Representative offices
In the USA (4 centres), Australia, South Africa, Mexico, Japan, Brazil, Iran, Venezuela, Hong Kong, Spain and Great Britain.

Member of the Inter-Alpha Group of Banks

A copy of Kredietbank's 1983-1984 annual report can be obtained from the following address:
KREDIETBANK
Public Relations Department
Grote Markt 19, B-1000 Brussels

WORLD STOCK MARKETS

This announcement appears as a matter of record only.



E. D. & F. Man (U.S.A.) Inc.

US \$107,500,000

Commercial Paper Program

Direct-Pay Letter of Credit and Revolving

Credit Loan Support Facility

Arranged By

Amsterdam-Rotterdam Bank N.V.

As Agent

Provided By

- List of banks: Amsterdam Rotterdam Bank N.V., Banque Francaise du Commerce Exterieur, The English Association Trust Ltd., First National Bank of Minneapolis, Banque Arabe et Internationale d'Investissement, Chemical Bank, Credit Lyonnais, The First National Bank of Chicago, Merrill Lynch International Bank Limited, Rabobank Nederland.

We are pleased to have been selected as dealer for this program.

Merrill Lynch Capital Markets

OVER-THE-COUNTER

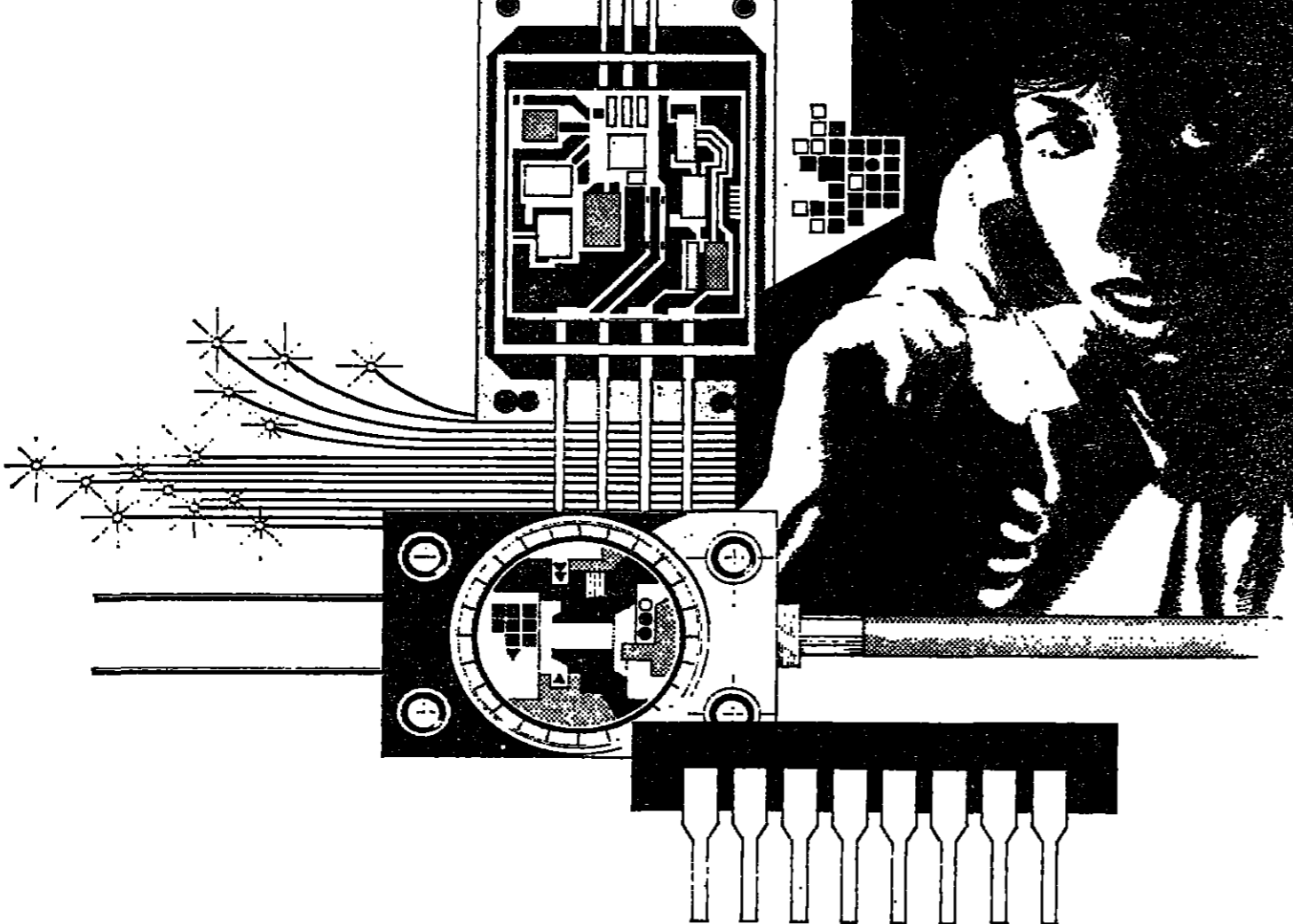
Table with columns: Stock, Sales (Mkds), High, Low, Last, Chng. Includes sub-sections: Continued from Page 28, N-N, R-R, C-O, P-Q, S-S, U-U, V-V.

LONDON

Chief price changes (in pence unless otherwise indicated)

Table of London stock price changes. Columns: Stock, Price Change. Includes sub-sections: RISES, FALLS.

OPTOELECTRONICS



Way back in 1918, Hitachi was developing ways of using electricity to connect people with each other and the information they needed. Those early products: Telephones, wire cable, and electromechanical switchboards. The legacy: Starting new media combining optical and electronics technologies for much greater communications capacity.

A marriage of light and lightning

Today, the results of Hitachi research into the field of optoelectronics are in use all around you. Optical fibre networks that link such previously separate functions as computing, copying, telephoning and facsimile transmission. Railway control systems employing infrared signals to relay information about passenger flow and route traffic. Light emitting diodes for home appliances.

Our engineers have joined the powers of light and electricity into compact multi-functional devices. They have reduced energy consumption and given a single laser beam the communications capacity of hundreds of copper wires.

In fact, we are constantly coming up with innovations and new applications. Most recently: A tiny infrared laser diode

that can transmit voice, graphic and numeric data dozens of kilometres through hair-thin optical fibre without signal-boasting repeaters.

These are just a few of the ways in which Hitachi puts optoelectronics technology to work for you. Creating practical tools that meet your needs... and those of professionals in telecommunications, broadcasting, and virtually every other field you can name.

The best of worlds is yet to come

Our vision of the future includes trans-oceanic optical cable carrying hundreds of thousands of light-encoded messages daily. Computerised automobiles with all operations controlled through optical wiring. And much, much more.

We'd like you to share in the benefits of our scientific research, covering the next generation of lasers, sensors, colour display tubes, and other electronic devices. For improved business efficiency. For a higher quality of life. Two goals we've pursued for 74 years as part of our commitment to a better world through electronics.

WE BELIEVE OPTOELECTRONICS LIGHTS THE WAY TO THE INFORMATION AGE



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LONDON STOCK EXCHANGE

MARKET REPORT

RECENT ISSUES

Drab markets enlivened again by heavy trade in newcomer Enterprise Oil

Account Dealing Dates
Option
First Declared Last Account
Dealings Date Dealings Day
July 2 July 25 July 25 July 25
July 2 July 25 July 25 July 25
July 2 July 25 July 25 July 25

Fresh sterling weakness, higher interest rates and the miners' deadlock combined to undermine investment confidence yesterday. London markets drifted lethargically throughout the session with Government securities leading the way lower. Leading shares began the day in shade, but they too succumbed and the FT Industrial Ordinary share index settled 0.5 down after posting a rise of 1.2 at 10.00 am. The lack of any guide from Wall Street—slightly easier overnight ahead of the Independence Day holiday and Treasury refinancing operations—was another deterrent. Investors were concerned over harder UK money market rates, although the authorities continued to resist measures for higher base lending levels by again keeping their dealing rates down.

Well supported since an analyst's meeting, Lloyd's brokers encountered renewed buying on consideration of the sector's dollar earnings potential. News of the proposed cancellation of the proposed cancellation of shares for a cash consideration of 125p per share left Willis Faber 28 higher at 875p, after 850p. Ahead of today's annual meeting, C. E. Heath put up 3 to 455p, after 455p. Stewart Wrightson firm 8 to 388p and Windsor Securities hardened 2 to 435p, after 47p.

For the second successive day, Enterprise Oil was easily the heaviest traded stock. Renewed strong support for the former state-owned oil group made little impression on the share price, which remained at par in 100p-paid form, but aroused further excitement. Hard on the heels of the RITZ, Enterprise Oil offer for 32m shares at a minimum tender price of up to 110p, private insurance group Norwich Union announced that it held a near-10 per cent stake of 21.1m shares. Of these 2.6m were taken up as part of the underwriting and the remainder acquired through market purchases.

GEC were another active counter. Immediately following the group's preliminary results—pre-tax profits of 587.1m compared with analysts' projections of 580.0m—GEC fell to 153p. The accompanying proposal to buy back its shares, however, later aroused interest and the price rebounded to close a net 4 up on balance at 149p.

Midland below best
Continuing its revival since the Board's identical last-Friday-of-an impending interim dividend cut, Midland closed a further 7 better at 305p, after 307p.

FINANCIAL TIMES STOCK INDICES

Table with columns: July 2, July 3, June 29, June 27, June 26, June 25, year ago. Rows: Government Secs, Fixed Interest, Industrial Ord., Gold Mines, Ord. Div. Yield, P/E Ratio, Total Returns, Equity turnover, and Shares traded.

10 am 823.3, 11 am 822.4, Noon 821.2, 1 pm 820.0, 2 pm 820.0, 3 pm 820.5. Basis: 100 Govt. Secs, 8/17/84, Fixed Int. 12.5, Industrial 17/7/84, Gold Mines 12/1/84, SE Activity 1974.

HIGHS AND LOWS S.E. ACTIVITY

Table with columns: 1984 High, 1984 Low, Since Compil'n High, Since Compil'n Low, July 2, June 29. Rows: Govt. Secs, Fixed Int., Ind. Ord., Gold Mines.

bid. Nottingham Brick improved a couple of pence to 117p and Istock Johnsons firm 3 to 188p. Baggeridge Brick hardened 2 to 158p and Blockers moved up 25 to 515p, the latter in a restricted market.

Vantona Viyella up
Vantona Viyella responded smartly to the doubled interim profits and touched 225p before closing at 230p for a net rise of 10. Elsewhere in Stores, Woolworths with a gain of 16 at 465p, while Burton put on 3 to 254p and Marks and Spencer hardened a penny to 221p. Lee Cooper rose 1p to 112p and Alfred Freedy improved a couple of pence to 118p.

BAE dip and rally
Leading miscellaneous industrial shares fluctuated narrowly before setting with small irregular movements on balance. Hanson Trust, a relatively firm market of late, eased 1 to 202p. Elsewhere, British Aerospace fell away to 855p on the absence of big developments, but rallied to close only 5 pence on.

fall of 38.6 and its lowest level since May 14. The bullion price retreated 82.3 to a five-month low of \$388.25 an ounce. Top quality Golds were highlighted by Randfontein, which gave up 23 at 1044 and Vaal Reef, 22 at 536, while cheaper-priced issues showed breaks 17 down at 1984 low of 158p and Deelkraal 28 easier at 275p.

Financials remained on the retreat, influenced by the latest downturn in Golds and the Rand rate. De Beers lost a further 2 to 485p, extending the decline over the past three trading days to one of 22; the half-year diamond sales figure is expected early next week. General fell 1 to 195p, but Hamilton Areas was 15p up to 155p, while Consolidated Gold Fields closed a net 7 off at 530p, after 527p. Charter 2000 eased 2 to 195p, but Hamilton Areas was 15p up to 155p, while Consolidated Gold Fields closed a net 7 off at 530p, after 527p.

Contracts transacted in Traded Options totalling 3,057—a marked improvement on the previous day's modest total of 1,901. GEC attracted 533 calls and 198 puts following the annual results. The FTSE 100 claimed a fair amount of attention with 229 calls and 461 puts arranged—346 in the September 1, 1985 level.

NEW HIGHS AND LOWS FOR 1984
NEW HIGHS (27)
COM-WELTH & AFRICAN LOANS (1)
1987-82 AGENT
AMERICANS (4)
City Ind. General Foods
Bank of Scotland (1)
BUILDINGS (4)
Aquaculture Textiles
Hampson Inds. (1)
Rowton Hotel (1)
Commercial Inds. (1)
INSURANCE (2)
Willis Faber
MOTORS (1)
Volvo AB
Central & Counties
Preston City
Camella Int.

IC Gas advance
The oil sector continued to make progress, albeit in relatively thin trading. Apart from Enterprise Oil, IC Gas held centre-stage, with a better-than-expected preliminary results were followed by strong buying interest which lifted the shares 18 to 298p. Leading issues were a shade firmer throughout the day and attracted a fair amount of support in the after-hours' trade. Shell and Ultramar added around 7 apiece at 637p and 273p respectively, while BP rose 2 more to 467p and British further 3 to 235p. The go-ahead for the Humby Grove oil field and proposed increase in production by 24 per cent, followed by a 50 per cent increase in the latter half of the year, followed by a 50 per cent increase in the latter half of the year, followed by a 50 per cent increase in the latter half of the year.

Gold under pressure
Gold and gold-related sectors of mining markets suffered another setback as a further decline in the bullion price and a fresh downturn in the Rand rate against the dollar prompted renewed and sometimes persistent selling pressure. The majority of the business was bought in the absence of developments from Johannesburg and was only partly offset by modest 'cheap' buying from London and Continentals. The Gold Mines index dropped 20.6 more to 606.3—a two-day

EQUITIES

Table with columns: Issue Price, Amount Offered, Return, High, Low, Stock, Change, +/-, etc. Rows include various companies like Anglo, British, etc.

FIXED INTEREST STOCKS

Table with columns: Issue Price, Amount Offered, Return, High, Low, Stock, Change, +/-, etc. Rows include various interest-bearing securities.

"RIGHTS" OFFERS

Table with columns: Issue Price, Amount Offered, Return, High, Low, Stock, Change, +/-, etc. Rows include various rights offers.

ACTIVE STOCKS

Table with columns: Stock, Closing Day's Change, etc. Rows include various active stocks.

MONDAY'S ACTIVE STOCKS

Table with columns: Stock, Closing Day's Change, etc. Rows include various active stocks from Monday.

RISES AND FALLS YESTERDAY

Table with columns: British Funds, Shares, Bonds, etc. Rows include various market categories.

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

Table with columns: Equity Groups & Sub-sections, Index No., Day's Change, etc. Rows include various equity groups like Capital Goods, Building Materials, etc.

FIXED INTEREST

Table with columns: Prices, Day's Change, etc. Rows include various fixed interest instruments like British Government, etc.

EUROPEAN OPTIONS EXCHANGE

Table with columns: Series, Vol., Aug., Last, Vol., Nov., Last, Vol., Last, Stock. Rows include various European options like Gold, Silver, etc.

LONDON TRADED OPTIONS

Table with columns: Option, July, Oct., Jan., July, Oct., Jan., etc. Rows include various London traded options like B.P., Cons. Gold, etc.

HOTELS - Continued

Table listing hotel stocks with columns for Stock, Price, and % Change.

FT LONDON SHARE INFORMATION SERVICE

Fidelity logo and text: 'Fidelity knows it better. Find out more - ring Freephone Fidelity day or night.'

Table titled 'AMERICANS' listing various American stocks and their prices.

Table titled 'BRITISH FUNDS' listing various British funds and their performance.

Table titled 'CANADIANS' listing various Canadian stocks and their prices.

Table titled 'BANKS, HP & LEASING' listing various bank and leasing stocks.

Table titled 'CORPORATION LOANS' listing various corporation loan securities.

Table titled 'COMMONWEALTH AND AFRICAN LOANS' listing various commonwealth and African loan securities.

Table titled 'BEERS, WINES - Cont.' listing various beer and wine stocks.

Table titled 'BUILDING INDUSTRY, TIMBER AND ROADS' listing various building and infrastructure stocks.

Table titled 'ELECTRICALS' listing various electrical industry stocks.

Table titled 'CHEMICALS, PLASTICS' listing various chemical and plastic industry stocks.

Table titled 'DRAPERY AND STORES' listing various drapery and retail stocks.

Table titled 'BEERS, WINES & SPIRITS' listing various beer, wine, and spirit stocks.

Table titled 'FOREIGN BONDS & RAILS' listing various foreign bonds and rail stocks.

Table titled 'DRAPERY & STORES - Cont.' listing various drapery and retail stocks.

Table titled 'ELECTRICALS' listing various electrical industry stocks.

Table titled 'FOOD, GROCERIES, ETC' listing various food and grocery stocks.

Table titled 'HOTELS AND CATERERS' listing various hotel and catering stocks.

Table titled 'ENGINEERING' listing various engineering industry stocks.

Table titled 'HOTELS AND CATERERS' listing various hotel and catering stocks.

Table titled 'HOTELS AND CATERERS' listing various hotel and catering stocks.

INDUSTRIALS (Miscel.)

Large table listing various industrial stocks across multiple columns, including company names, prices, and changes.

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INDUSTRIALS—Continued

Table of industrial stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

LEISURE—Continued

Table of leisure stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

PROPERTY—Continued

Table of property stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

INVESTMENT TRUSTS—Cont.

Table of investment trusts including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

OIL AND GAS—Continued

Table of oil and gas stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

MINES—Continued

Table of mining stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

DAWA SECURITIES logo and header for the International Financial section.

MINES—Continued

Table of mining stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

TINS

Table of tin stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

MISCELLANEOUS

Table of miscellaneous stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

PLANTATIONS

Table of plantation stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

TEAS

Table of tea stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

MINES

Table of mining stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

REGIONAL & IRISH STOCKS

Table of regional and Irish stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

OPTIONS—3-month call rates

Table of 3-month call rates for various options including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

RECENT ISSUES & RIGHTS

Table of recent issues and rights for various stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

INSURANCES

Table of insurance stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

PROPERTY

Table of property stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

TRUSTS, FINANCE, LAND

Table of trusts, finance, and land stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

TOBACCO

Table of tobacco stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

FINANCE, Land, etc

Table of finance, land, and other stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

Central Rand

Table of central rand stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

NOTES

Notes section providing additional information and commentary on the market data.

Far West Rand

Table of far west rand stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

O.F.S.

Table of O.F.S. stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

Finance

Table of finance stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

Oil and Gas

Table of oil and gas stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

Diamond and Platinum

Table of diamond and platinum stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

Central African

Table of central african stocks including companies like British Airways, British Petroleum, and British Telecom, with columns for stock price, high/low, and volume.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Table listing various unit trusts such as Britannia Group, Abbey Unit Tr. Mgrs., and others, with columns for name, manager, and performance metrics.

Table listing various unit trusts such as Franklin Unit Tr. Mgr. Ltd., Kierwatt Besant Unit Managers, and others, with columns for name, manager, and performance metrics.

Table listing various unit trusts such as Perpetual Unit Trust Mgmt. Ltd., Touche, Reamont Unit Trust Mgmt. Ltd., and others, with columns for name, manager, and performance metrics.

Table listing various unit trusts such as L & C Unit Trust Management Ltd., Lawson Fund Managers Ltd., and others, with columns for name, manager, and performance metrics.

Table listing various unit trusts such as Leyland & General Unit Tr. Mgrs. Ltd., Lloyds Unit Tr. Mgrs. Ltd., and others, with columns for name, manager, and performance metrics.

Table listing various unit trusts such as Royal Life Fd. Mgmt. Ltd., Royal London Unit Tr. Mgrs. Ltd., and others, with columns for name, manager, and performance metrics.

F.T. CROSSWORD PUZZLE No. 5457

- 1 Dollars ACROSS to obtain ammunition (4-4)
5 The wrong time's right for him (6)
9 Many were awoken when people had a drunken party (8)
10 Mother goes to the doctor having knocked back S. African port (6)
12 Rouse the fiery Celt, perhaps (9)
13 Give way under pressure (5)
14 As a medal it's unbeatable (4)
16 Brown may start to fight, being tough (7)
19 An ex-caller (7)
21 Slough outbuilding (4)
24 Plain clothes expert in Moselem law (5)
25 Services men who have a job to do (4, 5)
27 Third mate Barnaby to walk wearily (6)
28 Place of fancy? (5, 3)
29 Conditions under which horses race (6)
30 Flance was set upon (8)
DOWN
1 He's not making any advance except in business (6)
2 Decay that is breaking up special (8)
3 Settle without recourse to law (5)
4 Initial opportunity (7)
6 Anyway, it's where customs may look (2, 3, 4)
7 Hill splits and falls, perhaps (8)
8 As an occupant, I'd resent being put out (8)

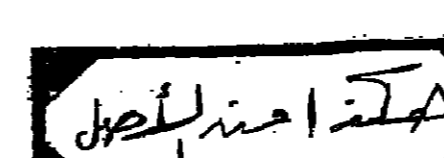
FT Unit Trust Information Service logo and contact information for the service.

Advertisement for 'SOLUTION TO PUZZLE No. 5456' with a grid and the solution text.

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شركة استثمار

INSURANCE, OVERSEAS & MONEY FUNDS

Table of insurance and overseas funds including Liberty Life Assurance Co Ltd, National Provident Institution, and various international investment funds.

Table of money funds including Saver & Prosper Group, Target Life Assurance Co Ltd, and various international investment funds.

Table of money funds including GAI Investments (Ireland) Ltd, Grindley Henderson Mgt Ltd, and various international investment funds.

Table of money funds including Marine Midland (CI) Ltd, Standard Jersey Ltd, and various international investment funds.

OFFSHORE AND OVERSEAS

Text describing offshore and overseas investment opportunities, including mentions of Artisan Investment Fund SA and various international funds.

Money Market

Table of money market data including interest rates and market indicators.

Trust Funds

Table of trust funds including various investment trusts and their performance metrics.

Money Market

Table of money market data including interest rates and market indicators.

Bank Accounts

Table of bank accounts including various international banks and their services.

NOTES section providing additional information and disclaimers regarding the data presented in the tables.

COMMODITIES AND AGRICULTURE

Comex scheme aims to boost aluminium

BY RICHARD MOONEY
THE New York Commodity Exchange (Comex) has announced an incentive scheme aimed at boosting activity in its seven-month-old aluminium contract.

Comex said yesterday, but no permits had yet been taken up. It said the permits would be convertible into permanent memberships provided the holders traded at least 5,000 contracts in the first year.

Sugar prices fall again

BY JOHN EDWARDS, COMMODITIES EDITOR
WORLD SUGAR prices fell again yesterday on the London market reflecting continued disappointment over failure of the Geneva conference to negotiate a new International Sugar Agreement and a decline in New York on Monday night.

agreement bringing higher prices. At the same time, with crop prospects good in most major producing areas, there is a general feeling prices are likely to remain under pressure and could decline in coming months.

PRICE CHANGES

Table with columns: In tonnes unless stated otherwise, July 3 1984, +/-, Month ago, July 3 1984, +/-, Month ago. Includes Metals, Tin, and Wolfram.

BASE METALS

Table with columns: COMEX, LME, +/-, Month ago. Includes Nickel, Zinc, Lead, and Tin.

Potato futures rise

FORECASTS of warmer, dry weather in the UK produced nervous short covering on the London potato futures market yesterday, pushing forward prices sharply higher.

BRITISH COMMODITY PRICES

Table with columns: COMEX, LME, +/-, Month ago. Includes Copper, Aluminium, and Tin.

Greece takes more of dried fruit market

SO FAR this year Greece has supplied 41 per cent of Britain's imports of sultanas and raisins, which last year totalled 70,000 tonnes.

A correspondent explains how the EEC's latest member has caused Australia to cede dominance of quantity

While Greece has been offering sultanas at \$750 (£555) a tonne, Australian and other Greek fruit is bound by the MIP not to go below \$645 a tonne, except on a par of a \$150-a-tonne levy.

The scale of the upturn, however, is too slight to afford Australia much relief. Australia depends as it has always done on European outlets for disposal of about a third of its exports.

berish, Greece accused the commission of allowing Turkish sultana imports to undercut Greek ones on European markets.

Nicaraguan rural labour shortage looms

A RURAL labour shortage in Nicaragua is looming, mainly because of the U.S.-backed war being waged against the Government.

Annually about 20,000 students are mobilised in voluntary work-brigades to pick the country's vital coffee and cotton export crops.

Stocks were good for 75 days but imports were required because it needed to "beef up" stocks to assure adequate supplies were stored in time for the main months of July, August and September.

Latin American farm output declines

PER CAPITA agricultural production in Latin America last year fell to nearly 1969-71 levels with only 10 out of 25 countries registering a greater output than in 1982.

Argentina and Paraguay. Coffee production, too, rose a mighty 23 per cent over the previous year.

Philippines ceases to be net rice exporter

MANILA — Prolonged drought and the shortage in foreign exchange to import fertilisers have combined to turn the Philippines from a net rice exporter last year to a net importer this year.

The National Food Authority, with sole power to export and import rice, said the 150,000 tonnes were actually shipments from Thailand bought at \$255 (£183) a tonne.

stocks were good for 75 days but imports were required because it needed to "beef up" stocks to assure adequate supplies were stored in time for the main months of July, August and September.

Table with columns: NEW YORK, CHICAGO. Includes COCOA, MOODY'S, REUTERS, DOW JONES, MEAT/FISH, POTATOES, SOYABEAN MEAL, SUGAR, and RUBBER.

LONDON OIL

Table with columns: Gas oil prices opened \$1.90-\$2.00 lower and fell further.

GAS OIL FUTURES

Table with columns: U.S. per barrel, Month, +/-, Done.

SPOT PRICES

Table with columns: CRUDE OIL - FOB (\$ per barrel), Arab Heavy, Arab Light, Arab Heavy, Arab Heavy, Arab Heavy.

TIN

Table with columns: High Grade, U.S. per cwt, +/-, Done.

GOLD MARKETS

Gold fell \$2 1/2 to close at \$368.38 on the London bullion market yesterday.

LONDON FUTURES

Table with columns: Month, +/-, Done.

GOLD MARKETS

Table with columns: Close, Opening, Netting, Netting fixing.

ALUMINIUM

Table with columns: Aluminium - Morning: Three months, U.S. per tonne.

GOLD MARKETS

Table with columns: Close, Opening, Netting, Netting fixing.

ALUMINIUM

Table with columns: Aluminium - Morning: Three months, U.S. per tonne.

EUROPEAN MARKETS

Table with columns: Wheat - (U.S. \$ per tonne), U.S. two, U.S. two.

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Table with columns: Wheat - (U.S. \$ per tonne), U.S. two, U.S. two.

WEEKLY METALS

Table with columns: All prices as supplied by Metal Bulletin.

COFFEE

Table with columns: Coffee - Yesterday's +/- of Business.

NICKEL

Table with columns: Nickel - Yesterday's +/- of Business.

RUBBER

Table with columns: Rubber - Yesterday's +/- of Business.

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RUBBER

Table with columns: Rubber - Yesterday's +/- of Business.

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling at 15-month low

Sterling slipped to its lowest level for 15 months in currency markets yesterday. Much of the decline was attributed to the dollar's continued strength but the pound also lost ground against many European currencies.

Factors behind the dollar's rise to a record trade weighted index of 135.0 up from 124.3 on Monday remained the same. An overnight Federal funds rate of 12 1/2 per cent and a deep rooted conviction that the Federal Reserve will be obliged to increase rates further provided sufficient impetus to push the dollar to DM 2.8210 against the D-mark, its best level since January and up from DM 2.7800 on Monday.

The D-mark showed mixed changes at ten Frankfurt fixing, weakening against the dollar, but improving against sterling. The Bundesbank may not have intervened on the open market, but sold 300 million dollars when the rate was fixed at DM 2.8077, compared with DM 2.7971 previously.

Conflicting news

Sterling denominated contracts finished weaker on the day, but above opening levels on the London International Financial Futures Exchange yesterday, but dollar denominated contracts ended at or near the day's high.

CONFLICTING NEWS

New York trading, after touching 1 1/2 per cent on Monday, but was largely regarded as a reflection of the technical shortage of liquidity ahead of today's independence Day holiday.

EMS EUROPEAN CURRENCY UNIT RATES

Table showing EMS European Currency Unit rates for various countries including Belgium, France, Germany, Italy, etc.

THE POUND SPOT AND FORWARD

Table showing pound spot and forward rates for various currencies like US, Canada, DM, etc.

THE DOLLAR SPOT AND FORWARD

Table showing dollar spot and forward rates for various currencies like UK, DM, etc.

OTHER CURRENCIES

Table showing rates for other currencies like Argentina, Australia, Canada, etc.

CURRENCY MOVEMENTS

Table showing currency movements for various currencies like Sterling, US dollar, etc.

CURRENCY RATES

Table showing currency rates for various currencies like Sterling, US dollar, etc.

CURRENCY RATES

Table showing currency rates for various currencies like Sterling, US dollar, etc.

EXCHANGE CROSS RATES

Table showing exchange cross rates for various currencies like Pound Sterling, etc.

EURO-CURRENCY INTEREST RATES

Table showing Euro-currency interest rates for various currencies like Sterling, etc.

LONDON MONEY RATES

Table showing London money rates for various currencies like Sterling, etc.

DISCOUNT HOUSES DEPOSIT AND BILL RATES

Table showing discount houses deposit and bill rates for various currencies like Sterling, etc.

FT LONDON INTERBANK FIXING

Table showing FT London interbank fixing rates for various currencies like Sterling, etc.

MONEY RATES

Table showing money rates for various currencies like Sterling, etc.

MONEY RATES

Table showing money rates for various currencies like Sterling, etc.

MONEY RATES

Table showing money rates for various currencies like Sterling, etc.

UK rates firmer on weak pound

Sterling's fall to record levels against the dollar and a 15-month low on its index pushed UK interest rates firmer yesterday.

UK clearing banks' base lending rate

The Bank of England forecast a shortage of around £400m with factors affecting the market including maturing assistance and a take up of Treasury bills together draining £257m.

There was no further intervention in the afternoon.

In Amsterdam the latest four year Treasury bill tender attracted a fixed rate of 8 1/2 per cent on sales of Ft 453.5m.

firm trend and a rise in U.S. interest rates.

In Rome the Italian Treasury announced an increase in its L.55 trillion July offering of seven year credit certificates to L8 trillion.

FT LONDON INTERBANK FIXING

Table showing FT London interbank fixing rates for various currencies like Sterling, etc.

MONEY RATES

Table showing money rates for various currencies like Sterling, etc.

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FT INTERNATIONAL BOND SERVICE

The list shows the 200 latest international bond issues for which an adequate secondary market exists. The following are closing prices for July 3.

Table with columns for U.S. DOLLAR, STRAIGHTS, and various bond issues including issuer names, amounts, and prices.

Table with columns for YEN STRAIGHTS, CONVERTIBLE BONDS, and various international bond issues including issuer names, amounts, and prices.

This announcement appears as a matter of record only



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CAISSE CENTRALE DES BANQUES POPULAIRES CAIXA DE BARCELONA L'EUROPEENNE DE BANQUE

Agent

Banco Hispanoamericano

June, 1984

EUROBONDS

Citicorp launches \$100m issue

By Peter Montagnon in London

THREE fixed rate dollar Eurobonds were sprung upon an unsuspecting market yesterday with the launch of \$100m issues for both Citicorp and Tokyo Electric Power as well as a \$30m bond for Sapporo Breweries of Japan.

The deals were generally well received in otherwise quiet trading with most dealers staying on the sidelines ahead of today's holiday in the U.S. and completion of this week's U.S. Treasury financing programme.

Table titled 'BHF Bank bond average' showing July 3 and previous days' averages for High and Low values.

side-lines ahead of today's holiday in the U.S. and completion of this week's U.S. Treasury financing programme.

Tokyo Electric Power, which is the largest privately owned electric utility in the world, made its debut in the Eurobond market with its five year 13% per cent issue launched at par by lead manager County Bank. By last night the bonds were trading at around 99, well within their total fees of 1%.

The Citicorp deal bears a 14 per cent coupon and issue price par. It has an initial maturity of two years but can be extended each two years until 1994. This means the market can treat it as two year paper and bank investors with access to two year deposits can fund the issue at an automatic profit.

Quadrax Securities, which is leading the issue alongside Blyth Eastman Paine Webber, quoted the paper at a discount of 7/8 per cent last night, just within its fees. But Citicorp has had to pay a high price to get its deal away. The coupon is more than a full percentage point above the two year bond launched for GMAC ten days ago.

Bankers say, however, that both these issues reveal the market's willingness to absorb generously priced fixed rate issues despite the current interest rate and withholding tax uncertainties.

Sapporo Breweries' issue is led by Yamaiichi and Salomon Brothers and bears a 13% per cent coupon at par over five years.

In Germany Ford Credit has been awarded a 7% per cent coupon at par for its DM 75m five year private placement led by Commerzbank while Haindl Paper's DM 70m seven year issue led by Bayerische Vereinsbank will carry a coupon of 8 per cent and issue price of 99%.

Portugal credit increased

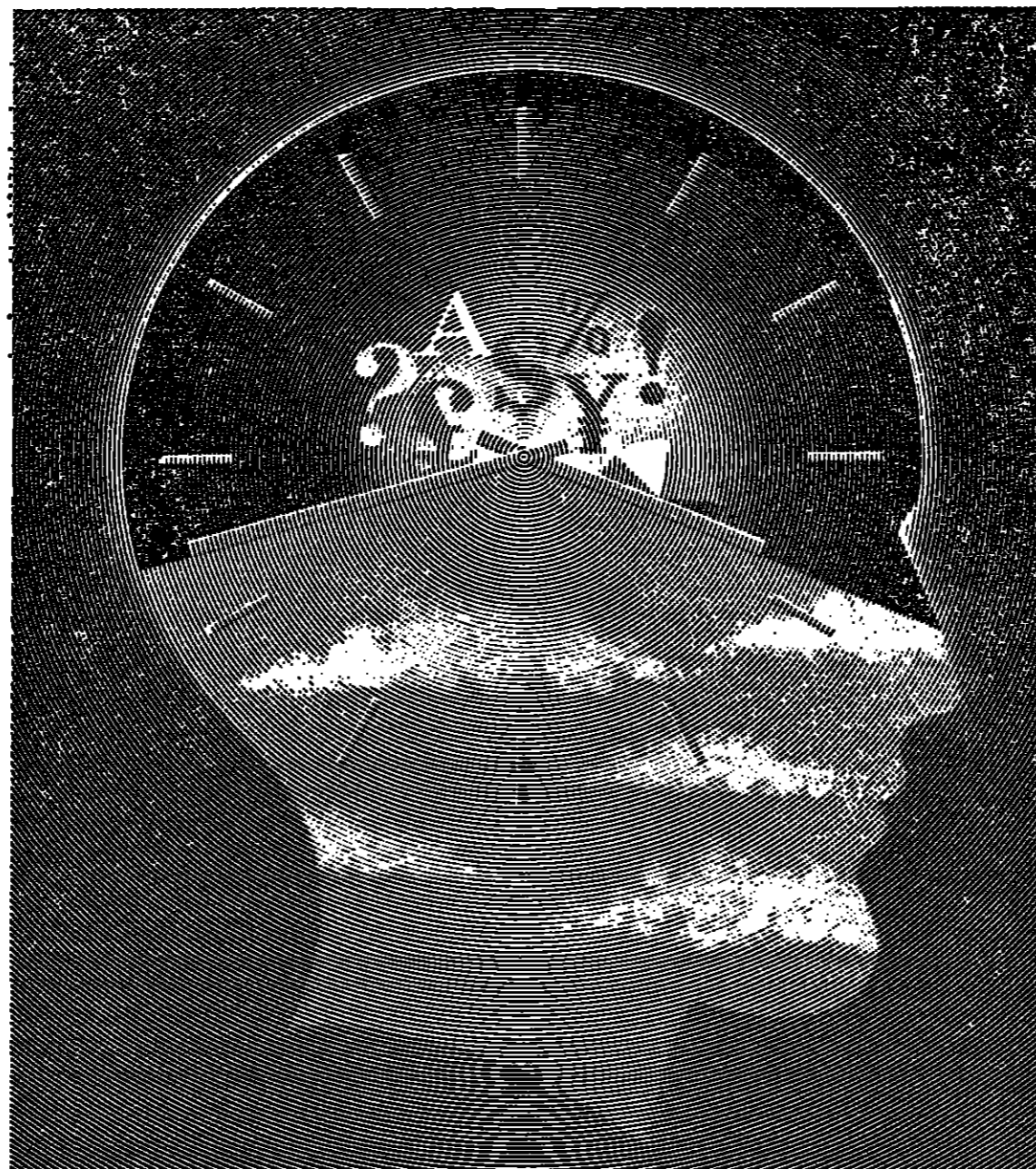
By Diana Smith in Lisbon

PORTUGAL has met such a warm response to its plan to raise a \$300m Eurocredit that the amount was increased yesterday to \$400m even before syndication started.

The decision was taken at a meeting between Sr Victor Conselheiro, deputy governor of the Bank of Portugal, and 23 banks which had accepted invitations to lead the credit.

Portugal has adopted a somewhat unusual approach to this loan by inviting banks to participate on terms which it has itself decided. This is instead of seeking competitive bids from groups of banks wishing to bring the deal to the market.

But the margin it is offering of 3/4 per cent over Eurocurrency rates for seven years has aroused considerable interest in the market.



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none: experienced energy lenders backed up by one of the largest and most comprehensive technical groups anywhere in international banking.

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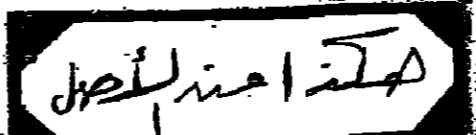
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FINANCIAL TIMES SURVEY

West Germany

BANKING, FINANCE AND INVESTMENT

West Germany's banks have recovered well from the problems posed for them by industrial collapses at home and the debt crisis abroad but they now face a more regulated future. Encouraging the development of new sources of finance for companies is an important aim

Dawning of a new day

By Jonathan Carr

THE West German banks have entered their third major phase of development in the postwar period. They have learnt a lot—and are now more profitable than they have been for a long time. They need to be.

In the first phase lasting until about the mid-1960s, the banks helped bring about the so-called "economic miracle" and enjoyed the fruits of it. Gross National Product (GNP) grew at an annual average of around 7 per cent in real terms (after allowing for the minimal rate of inflation), unemployment hardly existed, and the Germans gobbled up a growing share of world trade in an environment of stable interest and exchange rates. Like Germany's economic take-off in the late 19th century, the postwar recovery was based not least on the close ties between the banks and their industrial customers; and the profits of both partners floated up irresistibly like hydrogen-filled balloons.

The second phase through to

the end of the 1970s was one of hectic expansion in a far more turbulent economic, political and social environment. True there were fewer banks but they had far more branches (nearly 40,000 in 1980 compared with 25,000 in the mid-1960s) all battling for the services of every last individual customer. It was the age of "Massengeschäft" or banking for everyone.

 **Deutsche Bank**

At the same time the banks extended their foreign network and established themselves in the burgeoning Euromarkets, helping to finance Germany's export effort and to "re-cycle" the surplus funds of the oil producers. Despite faltering GNP growth, much higher inflation and floating exchange rates, business volume boomed (from around DM 500bn in the mid-1960s to over DM 2,000bn by 1980). But the profits and capital base of the banks did not keep pace. And when the Bundesbank, the central bank

warned quite early on about the dangers of "over-recycling" (ie, excessive lending to sovereign borrowers of doubtful economic health) it was widely treated as a stick-in-the-mud.

The second oil crisis of 1979-80, and the direct combination of deep recession and high interest rates which followed, ushered in the third phase. At home the close involvement with industry which paid off handsomely in the 1950s now cost the banks dear. The bail-out of the financially-stricken electricals concern AEG-Telefunken, was only the most dramatic example among many. Abroad the "Poland shock," the first round of the debt crisis in which German banks, for political and historical reasons were especially heavily involved, was followed by the "Latin American shocks." For the banks retrenchment became the order of the day and a new profits consciousness emerged.

On the whole the banks have done well, achieving much higher profits in 1982 and 1983 and bolstering their provision for loan losses almost certainly by far more than their de-

liberately mystifying balance sheets reveal.

They have been helped in this strategy both by official encouragement and by some arm twisting. For one thing the Bundesbank engineered a long and continuous cut in interest rates, which allowed the banks to reduce their funding costs more quickly than their lending rates. For another thing the tax authorities (at the behest of the Bonn Government) have been

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Deutsche Giro- und Sparkassenbank

generous in the scope they have allowed the banks to set their write-offs against current earnings. There is no doubt that both the central bank and the Government were at least partly influenced by their recognition that the banks need to cushion themselves against the impact of the debt crisis. Moreover from 1980 at the latest it has been clear that Bonn would eventually take formal steps to rein in the lending



Herr Karl Otto Pöhl, president of the Bundesbank: a happier man these days now that his policy stance has been vindicated.

growth of the banks foreign subsidiaries, especially those in Luxembourg.

At present the German parent banks must limit their lending to a maximum of 18 times shareholders' equity, but they do not have to include the business of foreign subsidiaries in the calculation. Under changes in banking law due to come into force at the start of next year, the banks will have to publish consolidated accounts for all subsidiaries in which they have and at least 40 per cent stake and apply the "18 times" rule to the total lending sum. The implication is that they will either have to cut their lending exposure or increase their equity.

There have been heated criticisms in detail by some of the banks, not least on grounds that the five-year transition period foreseen by the Government to apply the new rules in full is not long enough. But broadly speaking the controls are in line with the more circumspect policies the banks have already been pursuing for some years. It would not be fair to criticise the German banks in isolation

for failing to foresee the full hazards of foreign lending in the 1970s. Very few institutions in any country (the Bundesbank, as mentioned, is one exception) did so either.

At least the Germans drew prudent policy conclusions from the debt shock, even if there is little consensus among them about how best the crisis might be handled in the longer run. Nor would it be reasonable to see in the most spectacular German banking event of the last year—the near-collapse of Schröder, Münchmeyer, Hengst after over-lending to an indus-

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trial client—a sign that the system itself is unsound. Indeed the speed with which other banks rallied round to limit the scope of the SMH debacle (admittedly with prodding from the Bundesbank and federal supervisory authorities) shows a lot of lessons have been learned since the Herstatt affair a decade ago.

If the German banks can be chided it is on quite other grounds. Over the years they surely did far too little to encourage industrial companies to strengthen their capital base and, eventually, to go to the stock market. As a result German industry was unusually vulnerable to the recent recession, as the record number of corporate bankruptcies emphasises only too well.

Admittedly there are now clear signs of a change in German attitudes. More enterprises are slowly coming to the bourse, the banks are working for modest stock market reform—and are even gingerly poking their toes into the risk capital business. But collectively the banks could act as much more of a catalyst to all of this without offending their principles of prudence or undercutting their profits. Indeed real prudence and the door to future profits may well lie in encouraging those smaller companies in high-growth technology sectors on which Germany's future economic health will greatly depend.

IN THIS SURVEY

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Boosting of foreign risk provisions helps ensure a good night's sleep. Page 2

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More stringent supervisory laws will be introduced at the start of 1985. Page 3

EUROBONDS
Decoupling of dollar and D-Mark interest rates. Page 3

BUNDESBANK
The prestige of the 'defender of the currency' has never been higher. Page 4

FOREIGN BANKS
Despite a firm grip on the market by the home team, a number of foreign banks have become well established. Page 4

LANDESBANKS
Varying degrees of financial success and debate over a greater international versus traditional domestic role. Page 5

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Mini-reform in the offing and encouragement for more companies to go public. Page 6

LEASING
Consolidation and more concern about risk in the wake of the DAL debacle. Page 7

RETAIL BANKS
The long-simmering animosity between the savings banks and co-operatives continues. Page 7

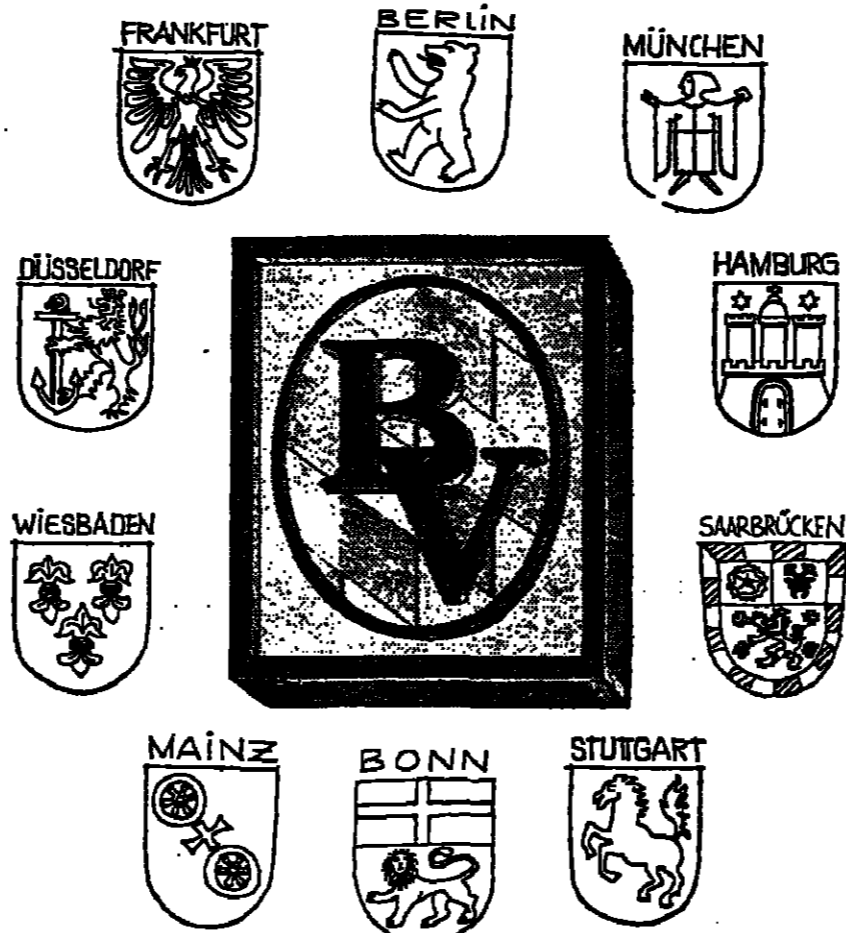
INSURANCE
Firm foundation to the palaces of the monarchs of Munich. Page 8

TECHNOLOGY
Increased interest has been spurred lately by the development of Bildschirmtext (Videotext). Page 8

SMALL BANKS
Endeavouring to carry on the spirit of the country's elite if dwindling band. Page 8

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West German Banking and Finance 2

Risk provisions help ward off insomnia

Commercial Banks
JONATHAN CARR

IN VIEW of international uncertainty we would not have been able to sleep well for a single night if we had put aside even one Deutsche Mark less than we have for risk provision.

The comment, made by Dr Witfried Guth, co-chairman of the Deutsche Bank, at the annual general meeting last month, may have caused some head-scratching among unwary shareholders. After all, the balance sheet for 1983 showed how the parent bank and the Deutsche Bank group putting aside much smaller sums than they did in 1982 for losses incurred, and provision for losses, on loans and securities. Might it not be fair to deduce from these published figures that Deutsche Bank feels it can relax its guard because the foreign debt crisis has greatly eased?

The answer is that neither the Deutsche nor any other German bank thinks anything of the sort. True the economic recovery at home is easing the plight of many of the banks' industrial customers after the squeeze of the recession years. Even the once-stricken electricals concern AEG-Telefunken, whose rescue from collapse cost

the banks dear, has struggled back to profit after a slimming cure. To that extent Dr Guth and his colleagues can breathe a lot more easily.

But abroad the true extent of credit risk remains, literally, incalculable. How are the banks to judge the political will of the government of a deeply indebted state to hold to a tougher domestic economic strategy and keep up interest payments? How are they to measure the ability and willingness of other international banks to keep putting up the "fresh money" for debtor countries which will make further interest payments possible?

Given this basic uncertainty, how can Deutsche Bank (the biggest and, it must be said, most successful of the German banks) apparently be making far less risk provision? In fact it is not. While the Deutsche slightly cut the sum set aside

against (undisclosed) own-account trading profits in securities before being published. Thus when the Deutsche's annual reports reveal the parent bank has slashed away DM 3.4bn in provisions over the past four years, the real total can be taken as markedly higher. The same point applies to Deutsche's rivals—albeit to a lesser degree.

Even if the published figures do not pin down the banks' exact positions, they do show a pretty clear trend. According to the latest Bundesbank figures available (compiled from the banks' balance sheets), all German banks together set aside DM 12.1bn in provisions and loan write-offs in 1982.

This compares with DM 9.1bn in 1981 and just DM 5.4bn in 1980. Well over one-third of the 1982 figure, or DM 4.5bn, was accounted for by the commercial banks—that is mainly the so-called "big three" Deutsche, Dresdner and Commerzbank as well as the two Munich-based banks, Bayerische Vereinsbank and Bayerische Hypothek- und Wechselbank.

The sharp rise of these sums illustrates the impact both of domestic recession and of the foreign debt crisis. It is unclear how much of the total is accounted for by actual losses, how much by provision for possible losses. Nonetheless, the figures can be taken as partial evidence that the banks did not just see the dangers mounting abroad but took action to cushion themselves against future shocks.

They were able to build up their risk provision as much as they did thanks to the sharp—but again not precisely quantifiable—boost in profits in 1982 and 1983. Normally the banks have given their "partial" operating profit figures (net interest and commission income, less personnel and administrative costs) but have not revealed their full operating profit, which includes the results of own-account trading.

For 1983 several banks have been a bit less coy, with Commerzbank revealing that group operating profit totalled close to DM 1.2bn and Dresdner reporting its group result over



Testament to the largest and most successful of the West German banks, the twin towers of Deutsche Bank's new headquarters in Frankfurt.

standing credit figures, cannot be too sure. The Deutsche Bank group, for example, has lent more than DM 7bn to countries involved in debt rescheduling, the Commerzbank around DM 6bn and the Dresdner more than DM 5bn. But compared with U.S. banks, the Germans are far less involved in the crucial Latin American region and they seem to have built up bigger reserves. Moreover the German banks,



unlike the U.S. ones, are not subject to the rule under which a loan is declared a non-performing asset if interest on it is not paid for 90 days.

But if the Germans have more room for manoeuvre than the Americans, they are hardly closer to a common view on the next steps to try to ease the debt crisis. The Deutsche, for example, presses for measures to capitalise the interest rate burden of the developing countries, thus at least buying the needy nations more time. But then the Deutsche can fairly easily afford to renege the immediate interest income this plan would involve. Some other leading German banks would find it much harder.

Looking further ahead, the Deutsche estimates in an internal study that the countries involved in debt scheduling will have a net credit need of around US\$100bn in the five years 1984-88. The bank concludes that the world's commercial banks together would not be able to put up more than 40 per cent of that sum, implying markedly bigger financial efforts for the debtor countries will be needed by the IMF and other public bodies.

Moreover, that \$100bn figure is based on the assumption that the oil price will not rise by more than 3 per cent annually, that Labor will average 10 per cent this year, and 9 per cent thereafter, and that the GNP of the industrialised countries will grow by 3 per cent in real terms each year. It goes almost without saying that those are pretty optimistic assumptions. Little wonder that Dr Guth is boosting foreign risk provision to help ensure a good night's sleep.

Bankier group	1983 Banks	1983 Branches	1983 Bank offices total	1982 Year-on-year change in number of bank offices
Commercial banks	243	5,938	6,181	+ 17
Big banks	6	3,113	3,119	+ 2
Regional banks and other commercial banks	100	2,514	2,514	+ 18
Branches of foreign banks	58	50	108	+ 3
Private bankers	79	261	249	- 4
Central giro institutions	12	237	289	+ 4
Savings banks	592	17,076	17,668	+ 52
Central institutions of credit co-operatives	9	45	54	+ 83
Mortgage banks	37	28	85	+ 4
Private	25	22	47	+ 1
Public	12	6	38	+ 3
Installation sales financing institutions	57	565	633	+ 74
Building and special functions	16	77	93	+ 1
Building and loan associations	21	18	39	-
Private	18	18	36	-
Public	3	-	3	-
Banking groups not covered by the monthly balance sheet statistics	77	1	78	- 1
Investment companies	35	1	36	-
Securities depositories	8	-	8	-
Guarantee banks and other banks	34	-	34	- 1
Total	4,848	39,831	44,669	+ 133

Source: Bundesbank

	1981	1982	1983
Bank loans to private companies*	244.2	252.5	282.1
Short-term	332.2	352.2	367.8
Medium and long-term	411.9	437.5	478.0
Bank loans to private individuals*	333.3	357.9	368.7
Customer deposits with banks**	170.4	183.0	188.8
Sight	404.0	430.1	438.6
Time	593.7	640.9	684.9
Savings deposits and certificates	91.6	96.7	104.7
Cash in circulation	+3.6%	+6.1%	+7.0%
Central bank money stock (4th qtr to 4th qtr)	7.5/9%	5/8%	4/3.5%
Discount/Lombard rate (yr-end)	1981	1982	1983
CAPITAL MARKET			
Fixed securities	186.2	211.6	236.7
Gross sales of domestic bonds	8.7	12.9	17.0
Gross sales of foreign DM bonds	67.1	74.5	87.8
Net sales of domestic bonds	696.1	778.9	865.5
Outstanding at year-end	80.3	83.6	87.6
Including: DM-foreign bonds	10.6%	9.1%	8.0%
Yield at year-end	141.1	163.9	225.7
Officially quoted shares	5.8%	4.9%	2.7%
Total market value at year-end	-1.3%	+13.1%	+26.5%
Dividend yield*	2.6	2.8	2.7
Commerzbank Index (changes)	30.9	35.2	84.1
Capital increases** (cash proceeds)	-2.5	+1.0	+3.2
Stock exchange trading	-1.4	+1.34	+1.72
Investment funds, small investors	-1.1	-0.67	+0.57
Net sales	-0.9	+0.34	+1.52
Including: bond funds	30.0	33.8	39.8
equity funds			
real estate funds			
Total assets at year-end*			

* Domestic only; † nominal; ‡ domestic securities outstanding; ** including income tax; *** according to Commerzbank statistics. (Source: Commerzbank.)

TOP 10 WEST GERMAN BANKS

1983	1982†	Bank	Balance sheet totals 1983 DM m	1982 DM m
1	(1)	Deutsche Bank, Frankfurt	210,000.0	199,200.0
2	(2)	Dresdner Bank, Frankfurt	160,834.0	155,304.0
3	(3)	Westdeutsche Landesbank Girozentrale, Düsseldorf	139,409.3	132,953.0
4	(5)	Bayerische Vereinsbank, München	113,530.0	105,548.0
5	(4)	Commerzbank, Frankfurt	113,250.0	108,234.0
6	(6)	Bayerische Landesbank Girozentrale, München	100,005.0	95,936.0
7	(7)	Bayerische Hypothek und Wechselbank, München	97,144.0	92,073.0
8	(11)	Norddeutsche Landesbank Girozentrale, Hannover und Braunschweig	83,653.1	59,543.5
9	(8)	DG Bank Deutsche Genossenschaftsbank, Frankfurt	77,665.0	69,611.0
10	(9)	Kreditanstalt für Wiederaufbau, Frankfurt	72,744.0	66,618.0

† Position for 1982.
Source: Schmacke "Die Grossen 500."

Focus on Hessische Landesbank - Girozentrale -
"Half of Germany's top 10 banks are Frankfurt-based. We're one of them."

Let's start with Frankfurt. Why is Frankfurt so important? "Frankfurt ranks among the world's foremost banking and financial centers. 150 German banking institutions operate here, and Frankfurt has more international banks than any other city in Continental Europe.

The Bundesbank is headquartered here, and the Frankfurt Stock Exchange is Germany's largest, accounting for nearly half of the stock exchange transactions, two-thirds of its dealings in foreign shares and some 80 per cent of the business in foreign fixed-interest securities.

Perhaps less well-known internationally is that Hessische Landesbank is one of Frankfurt's big native-born banks. Half of Germany's top 10 banks are Frankfurt-based. We're one of them."

About the bank itself. What are its size and structure? "With total assets of some DM 63 billion, Hessische Landesbank is Germany's 10th largest bank, 3rd among Landesbanken. It is a government-backed regional bank with its liabilities guaranteed jointly by the State of Hesse and its Sparkassen and Giro Association. We also act as banker to the State of Hesse from which our name is derived, and perform clearing functions for the 52 local Sparkassen."

What about your service facilities? "As a German universal bank, our facilities cover the full range of commercial and invest-



ment banking services. Internationally, we concentrate on wholesale banking and medium to long-term financing.

Recently we have also significantly expanded our money market operations, drawing on the combined facilities of our London, New York, and Luxembourg dealing rooms.

Moreover, we participate regularly in international bond, note and share issues, and perform brokerage functions for international investors. Our membership of the Frankfurt Stock Exchange facilitates dealing in quoted shares and fixed-interest securities."

And sources of funds? "A large part of our funding is done by issuing our own bonds and SD Certificates (Scheinschuldarlehen). The total outstanding is over DM 26 billion. As well, corporations, governments, and other institutional investors consider Hessische Landesbank a prime name for large-scale deposits."

Who are the bank's main clients? "As a wholesale bank, our service facilities are tailored for large, internationally-active cor-

porations, foreign governments, and financial institutions, as well as subsidiaries of international companies operating in Germany. As bankers to the State of Hesse, we support state-wide and municipal programs, and work closely with Hesse's Sparkassen and their clients, for example on the foreign side."

How do you see your position developing internationally? "Without neglecting our home base in Frankfurt, we have assembled a team of banking professionals devoted to building a strong international track record based on pragmatic banking principles, the most modern technical and support facilities, and the highest standards of client service. International banking is quite competitive, and banks that try harder for their clients and give them fast, personal service often have the edge. This is one of our major objectives."

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Why international agribusiness and Rabobank so often meet.

With agricultural exports of some 42 billion Dutch guilders, the Netherlands is the world's second largest exporter of agricultural products in general. Where dairy products are concerned, the country holds a firm first place. In fact, agricultural products account for 25 per cent of Dutch exports.

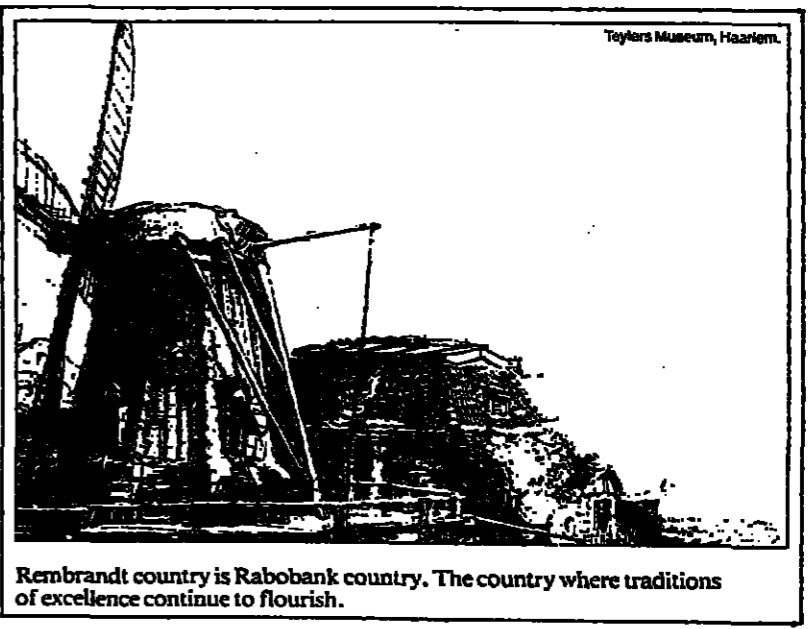
The organization provides country-wide on-the-spot banking services through a network of 3,000 offices. If you, too, are in or closely related to the 'green' business, you and Rabobank are likely to meet one day.

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Total assets exceed 115 billion Dutch guilders (approx. US \$ 38 billion).

By providing 90 per cent of all loans to Dutch agriculture, Rabobank is the largest source of credit to this particular sector. And plays a key role in agribusiness finance.

With the importance of agribusiness to Dutch foreign trade it is inevitable that Rabobank is intimately acquainted with all aspects of international trade finance. It is this important-



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West German Banking and Finance 3

Tighter supervisory laws

Regulations

RUPERT CORNWELL

BY THE beginning of next year quite innumerable Parliamentary accidents permitting West Germany's bank supervisory laws should be notably tighter. It will have been a long haul — over eight years in fact — but from January 1, 1985 new regulations are due to come into force which will oblige German banks to consolidate most of their foreign operations, and limit their exposure to single borrowers.

The amendments in the banking law were first aired back in the mid-1970s, shortly after the sensational collapse of the Herstatt banking house of Cologne. But it was only last autumn that the process gained vital impetus, as the venerable Frankfurt banking house of Schroeder, Münchmeyer, Hengst (SMH) came close to meeting a similar fate.

That the proposals, which received a first reading in the Bundestag on June 8, are comparatively mild and anything but a surprise might not have been evident from the hullabaloo raised about them in some quarters of the German banking industry. In fact they are hardly less draconian by international standards, and essentially will bring West Germany into compliance with new Common Market banking norms, scheduled to take effect from mid-1985.

The draft amendments cover 46 pages of bureaucratic, legalistic German. But their substance is quickly stated. In future German banks will have to consolidate the operations of all foreign associates in which they have a stake of 40 per cent or more (hitherto only 100 per cent owned subsidiaries have been involved).

At the same time, banks will be obliged to limit lending to a single customer to 50 per cent of their capital, compared with 75 per cent at present. Mortgage banks, mostly owned by the big commercial banks, will also be drawn into the consolidation process.

Both considerations of course played a crucial part in the SMH debacle, provoked directly by the bank's incestuous links with the failed IBH construction equipment concern of Herr Horst-Dieter Esch. As German banks put together an emergency DM 900m package to prevent the SMH's complete demise, it transpired that the bank had lent recklessly and excessively to IBH, with much of the money being channelled through Luxembourg and Switzerland, largely beyond the scrutiny of the Federal authorities.

Would such provisions have been enough to save Schroeder Münchmeyer? Perhaps not, say Finance Ministry officials in Bonn closely involved with the new bill. "But we certainly wouldn't have been caught so much by surprise, and the size of the disaster certainly wouldn't have been so great."

Indeed the 40 per cent consolidation figure is a compromise. The EEC regulations would like to go as low as 25 per cent, while the German banking industry would have



Unruffled by the kerfuffle the proposed new laws have caused, Finance Minister Herr Gerhard Stoltenberg (left) pictured with West German Chancellor Herr Helmut Kohl at the recent Economic Summit in London.

preferred consolidation to be limited to majority-controlled foreign subsidiaries. The Ministry reckons that 40 per cent is fair — even though it concedes that just 11 per cent tucked away in some impenetrable nominee company (or *Strohmann*, literally "straw man" as German picturesquely has it) could be enough to defeat the object of the amendment.

In the meantime, foreign subsidiaries will be henceforth subject to the ruling long in force for the domestic operations of German banks, that the volume of credit advanced must not exceed 18 times their "own capital," i.e. paid up capital plus reserves.

The men from the Ministry, smilingly unruffled by the kerfuffle, like to point out that some banks have declared themselves happy to go along with the new rules — especially as Herr Gerhard Stoltenberg, the Finance Minister, has granted a five-year transition period for the banks to conform. This, moreover, can be extended, if a bank can point to genuine pro-

gress over three years, but produces convincing arguments why it cannot go the whole hog in the remaining two.

That may well be true. But some leading bankers, as well as the BDB, the Federal Association of German Banks, differ. Their broad complaint is that the package is an over-reaction to the SMH affair — which not only was an isolated case but also one which the banking community handled very deftly on its own.

Specific grievances

In addition there are a range of specific grievances, most pungently expounded lately by Herr Walter Seipp, the chief executive of Commerzbank. He argues that the measures would bear unfairly upon the private banks, which have been most active abroad. Moreover, he adds, the adjustment process might by no means be as painless as suggested.

The extension to the foreign subsidiaries of consolidation, and the "36-times-own-capital" could in theory imply a down-

ward adjustment of future permitted lending by all banks together of DM 70bn or more. This in turn could damage the quality of the loan portfolio of major banks, and favour foreign-owned banks at the expense of their German competitors, according to Herr Seipp.

Common ground to both sides is that, on the basis of end-1982 figures, 23 of the parent banks are obliged to produce consolidated accounts, would be over the limit. But, according to the officials, "only 11 or so" of these might have any problem getting back inside the new ceilings. In any case, they point out, German banks have been raising their capital base lately at a rate easily sufficient if sustained, to produce the extra cover required.

A separate gripe has been the inclusion of mortgage banks a measure against which Count Otto Lambsdorff, the Economics Minister, among others, fought. The mortgage banks' reasoning was that the solid real estate guarantees behind their loans made them so solid as to render the new curbs unnecessary. Instead the upshot might be a squeeze on housing finance.

But the Finance Minister has been resolutely unimpressed, insisting that whatever their assets, the mortgage banks were nonetheless banks, and deserved similar treatment to everyone else.

The chances must be that the Bill will go through to the statute book, at least in its vital essence. All the major parties, even the Greens party, have broadly endorsed the proposals, although of course minor changes may well be tacked on when detailed debate gets under way.

Equally obviously, the new Bill will not solve everything. "We have tried to strike a compromise," officials say, "between protecting the credibility of the system and yet preserving a liberal and competitive structure for our banks."

Decoupling of interest rates the buzz-word

Eurobonds

MARY-ANN SIEGHART

THE BUZZ-WORD in the D-Mark international bond market is "decoupling." The sector has found itself annoyingly dependent on rises and falls in the U.S. domestic bond market over the last year, with only a short respite at the beginning of 1984.

Only when the D-Mark has been strong against the dollar and capital has flowed into Germany, has a decoupling of interest rates between the two markets been possible. For instance, in the first three months of this year, interest rates rose in the U.S. and fell

in Germany, mainly because the Mark rose by more than 10 per cent against the dollar between mid-January and early March.

While German investments in foreign securities exceeded foreign investments in German securities by DM 8.66bn (\$3.17bn) in 1982, the position was reversed last year, when there was a net inflow of foreign capital amounting to DM 3.2bn.

But most of this happened in the last quarter of 1983. In the summer, rising dollar interest rates dragged down prices of D-mark as well as Eurodollar bonds and new issues became very difficult to absorb. At one point, the calendar had been so heavy that a three-week gap was needed

for the overhang to disappear. In the third quarter of 1983, only 20 issues were launched, compared with 40 in the second quarter. It was not until November that the market was receptive enough for the monthly new issues calendars to total more than DM 1bn again.

But despite these occasional hiccupps forced on the market by events in the U.S., total new issue volume for the year was up from DM 12.7bn to DM 15.9bn. And the proportion of D-mark bonds in all international bond issues also rose from 7.1 per cent to 8.5 per cent. In terms of volume, the market is in third place behind dollars and Swiss francs.

Unlike 1982, when there was a clear downward trend in interest rates, new issue managers had to rely on the odd trough in rates last year to find buyers for their bonds. In fact, coupons on DM bonds were about 1 per cent higher at the end of the year than they had been at the start.

Increased lustre

Even now, coupons are slightly higher than they were a year ago. The latest DM 500m offering from the World Bank, for instance, yielded 8.125 per cent at its issue price compared with 7.6 per cent on its DM 250m bond launched at the end of last May.

Now that the dollar has regained at least some of its lustre, and the difference between dollar and D-mark interest rates is a good 5 or 6 percentage points, the DM bond market does not look so attractive to investors.

The recent statistics on capital movements bear this out. In April, inflows and outflows were more or less balanced, while in May, there was a small net outflow from Germany. The country's labour problems, illustrated by the metalworkers' strike, have helped neither the Mark nor the market.

Though there has been nothing like the selling pressure seen in the U.S. domestic and the Eurodollar bond markets, there are few buying orders around. "The market has come to a complete standstill," said one banker.

What is needed is a strengthening of the currency, and in terms of fundamentals, this could well happen. Germany has a surplus on its current account balance and is reducing its public spending. Inflation, meanwhile, is at around 3 per cent, giving a real rate of return on the bonds of up to 5 per cent.

Yet the market is still going to have the problem of a new issue overhang. Despite its unhealthiness in May, bankers set a new issue calendar totalling DM 1.345bn over the four weeks to July 6 — reasonably heavy even for an active market.

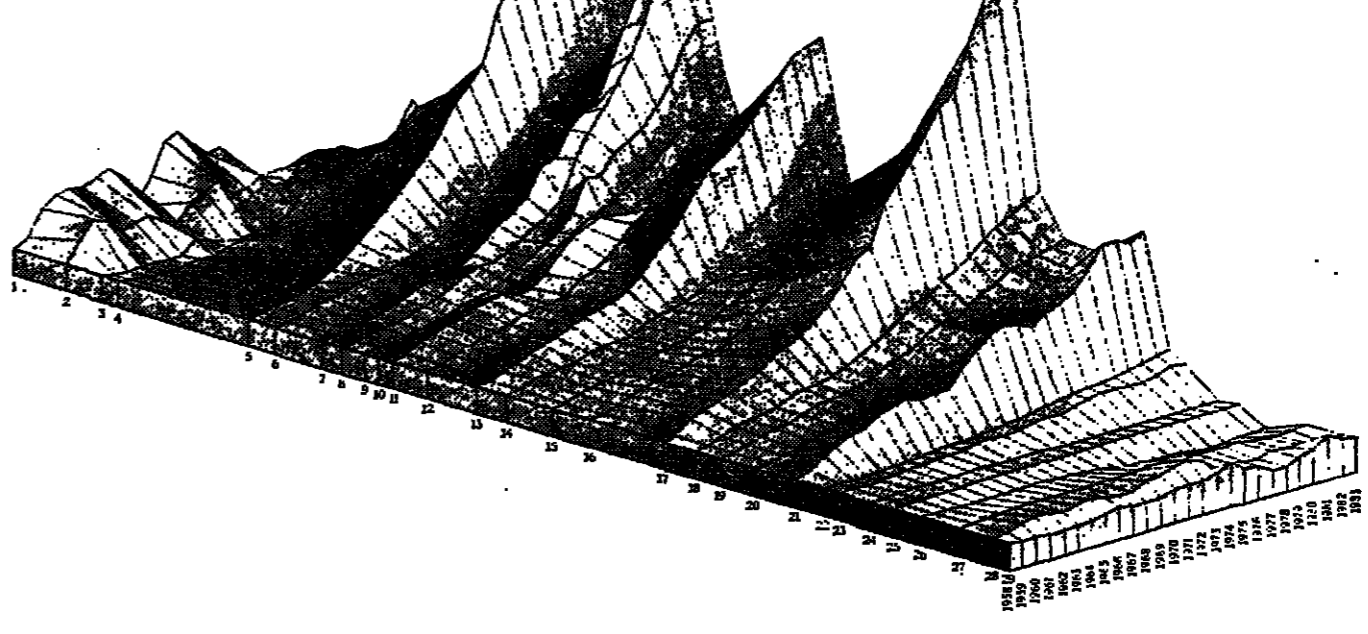
With six issues totalling DM 545m scheduled for the first week of July, many bond traders may be glad to be going on holiday.

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Data (1956/1983)

1. Vacancies in 1,000 (216/75)	9. Exports at current prices in DM bn (53.46/539)	14. Gross entrepreneurial and property income in DM bn (7.65/359)	17. Value added by service enterprises at current prices in DM bn (25.6/428)	21. Value added by construction industry at current prices in DM bn (14.94/100)	24. No. of gainfully employed persons in millions (24.124/25.16)
2. FAZ Share Index at year-end (100/351.85)	10. Domestic use of GNP at current prices in DM bn (225.65/1626)	15. Private consumption at current prices in DM bn (158.4/935)	18. GNP at current prices in DM bn (234.37/1637)	22. Cost-of-living index for 4-person households (wage and salary earners), Index 76 = 100 (54.3/133)	25. Population in millions (51.056/61.45)
3. No. of unemployed in 1,000 (683/2,238)	11. Investments in fixed assets at current prices in DM bn (52.58/546)	16. Gross wage and salary income in DM bn (111.65/914)	19. Value added by processing industry at current prices in DM bn (96/528)	23. Value added by distributive trades and transport at current prices in DM bn (47.16/251)	26. Exchange rate of US dollar, in DM (4.19/2.5467)
4. No. of insolventcies (3,535/16,500)	12. Tax revenue in cash terms in DM bn (52.4/595)	17. Government consumption at current prices in DM bn (31.27/331)	20. Value added by agriculture, forestry and fisheries at current prices in DM bn (16.16/75)	27. Terms of Trade, Index 76 = 100 (82/92)	28. No. of building permits (311,254/378,000)
5. Savings deposits in DM bn (36.102/566)	7. Imports at current prices in DM bn (44.81/500)	14. Public sector indebtedness in DM bn (46.122/676)	24. No. of gainfully employed persons in millions (24.124/25.16)	25. Population in millions (51.056/61.45)	26. Exchange rate of US dollar, in DM (4.19/2.5467)



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Fiscal 1983*	
Total Assets	58.7 billion DM
Total Customers' Deposits	27.2 billion DM
Loans to Customers Outstanding	35.5 billion DM
Capital and Reserves	1.9 billion DM
*Consolidated Balance Sheet Figures/BfG Group	

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Bonn's blue chip would be shareholders' dream

WHAT WOULD you not give for shares in a bank which last year had receipts totalling more than DM 15bn and expenditure (excluding addition to reserves) of only DM 1.4bn? Unfortunately all the capital of the institution concerned, the Deutsche Bundesbank, is held by the Federal Government and it isn't selling—at any price.

Perhaps, surprisingly, rather than the Bundesbank's receipts came from foreign currency dealing. Nor were higher interest rates the cause for the buoyant earnings. The main reason was the fall of the D-Mark against the dollar — which just shows that it is an ill wind which blows no-one any good!

Of a total DM 12.1bn received by the Bundesbank in interest income last year, no less than DM 9.4bn (compared with DM 8bn in 1982) came from its funds invested abroad. Since most of the funds were in dollar holdings, the drop of the German currency meant an increase in dollar interest income expressed in D-Marks (as, of course, it is in the central bank's accounts).

The Bundesbank did nothing like as well at home. It received only DM 2.9bn in interest income instead of DM 5bn in 1982 from its lending to domestic banks, mainly because it continued to drop its own key discount and lombard rates. On the other hand the Bundesbank had nothing much in the way of interest to pay—and relatively few other expenses either (the main one was DM 720m for the costs of its 15,000 personnel in Frankfurt and the provinces).

Happiness is policy vindication

Bundesbank
JONATHAN CARR

HERR Karl Otto Pöhl, President of the Bundesbank seems to be all smiles these days. That can hardly be because the central bank he heads has just had its second highly profitable year in a row. Most of the earnings must be turned over to the federal government—and what Bonn does with the money is not always helpful to Bundesbank Policy.

Not if Herr Pöhl and, indeed, most of his colleagues on the central bank council look well content it is because they have been through very tough years and emerged with their policy stand vindicated—in general if not always in detail. It is fair to say that the prestige of the Bundesbank as a "defender of the currency" largely independent of political pressures has never been higher.

Perhaps the most obvious measure of Bundesbank success is that D-Mark interest rates are now well over 5 per cent lower than dollar rates, without encouraging massive outflows of capital and a sharp drop in the German currency. True, the D-Mark has fluctuated about a bit this year, at one time dropping to DM 2.84 against the dollar. But the Bundesbank has been able to look on this development with equanimity. Although it raised discount rate by 0.5 per cent to 4.5 per cent last week, it kept the Lombard rate (at which advances are granted to the banks against securities) at 5.5 per cent. Moreover, the discount move was accompanied by steps to provide extra liquidity for the banks, and thus did not signal a tighter monetary policy.

That U.S.-German interest rate differential could hardly have been created relatively lightly by the Bundesbank had not the exchange rate expectations of investors gradually changed in favour of the D-Mark. This trend was already evident last year when Germany's net long-term capital exports halved to DM 7.5bn, thanks to a big inflow of funds in the second half.

It is a truism to say that investors came to feel that the dollar's heady flight must be close to its peak. The real point is that Germany's economic, financial and political situation was seen to have improved, making for a buoyant D-Mark in the longer run, whatever the immediate attraction of higher dollar interest earnings.

Falling inflation

Gross National Product (GNP) grew last year in real terms by 1.3 per cent after two years of contraction, the current account of the balance of payments showed a surplus of just over DM 10bn, the inflation rate dropped to 3 per cent and the new centre-right government sharply cut federal borrowing. This year GNP growth seems bound to be stronger (around 2.5 per cent in real terms), inflation probably lower and the current account still firmly in the black. Despite continuing high unemployment (an average 2.2m) and the damaging metalworkers strike, which has just ended after causing production losses worth billions of D-Marks, Germany's prospects on balance look better than those of most of its partners.

It would be absurd to argue that the Bundesbank alone is the cause of this improvement. But it was thanks to tough and

timely action by the central bank at the start of the decade that a crisis of confidence in the D-Mark could be headed off and the basis for renewed, non-inflationary growth laid. The current account went slightly into the red in 1979, then plunged into the biggest deficit in the western world (around DM 30bn) in 1980.

There were big outflows of capital and the D-Mark weakened. As it happened, the start of the fall of the German currency coincided with the dollar's first few weeks as President in 1980. The new man must have felt like an orchestral conductor booed by the audience as he picks up his baton for the overture.

In the event the Bundesbank took drastic action, notably shelving normal lombard facilities and forcing up interest rates, which impressed the jittery, currency markets. A really steep downward spiral of the D-Mark (with its dire accompaniment of more imported inflation) was avoided, and the current account could be financed without resort to formal capital controls.

The extent of the central bank measures was unwelcome to the centre-left Government in Bonn, which was trying to win back more economic growth and cut unemployment. Herr Pöhl came under special pressure as a member of the Social Democratic Party (SPD), the senior partner in the Bonn coalition. But the Bundesbank stuck to its guns—then was able to reintroduce lombard facilities and start cutting key interest rates again from 1982.

It can be argued that the Bundesbank could have relaxed its stance a bit sooner than it did—and that in March last year it then went too far

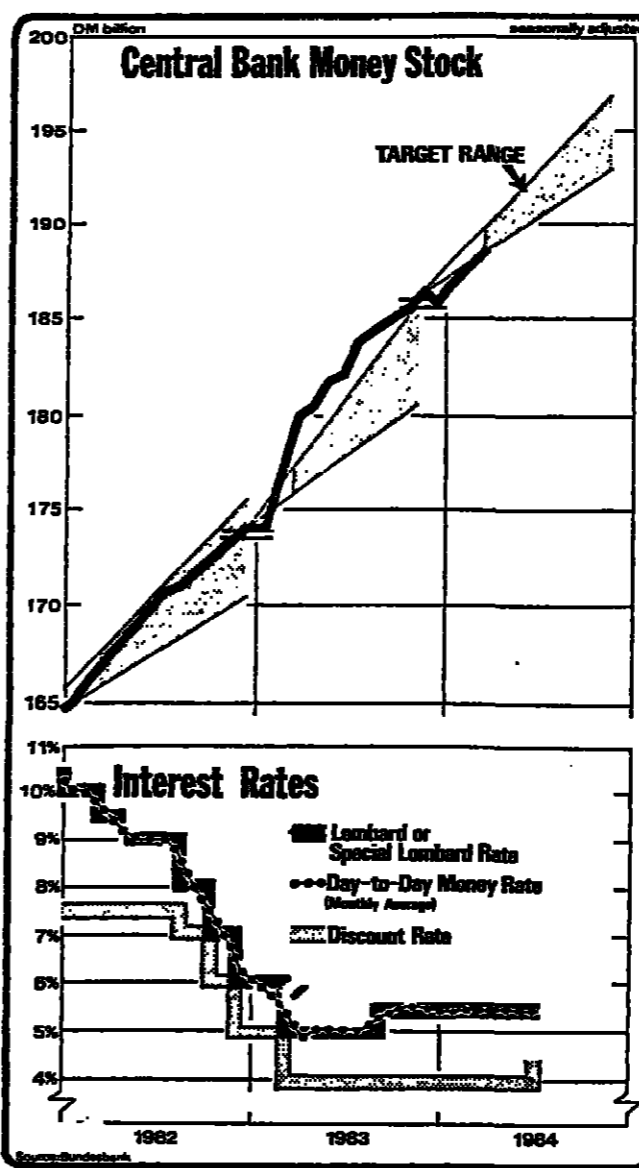
for comfort, cutting its main domestic interest rates by a full percentage point. But the details were doubtful the broad strategy proved correct.

That does not mean the Bundesbank has no more worries on the currency front—but the new concerns are the mirror image of success achieved. The latent fear now is that market apprehension about the growing deficits in the U.S., and a possible resurgence of inflation there, could eventually bring a stampede out of the dollar, and, in the first place, into the D-Mark. This could not only mean an unwelcome swelling of domestic money supply, and the danger of more inflation by this route, it would also spell new tensions for the European Monetary System (EMS).

New concerns

The D-Mark, the major currency in the System and simultaneously the main investment target for reluctant dollar holders, would be forced to its upper intervention limit in the EMS and eventually to revalue. The big problem for Germany then would be how to avoid revaluing, mainly for reasons of dollar weakness by more than its relative economic strength against its EMS partners justified.

In the long run there are only two ways out of this dilemma. One would be for the German currency to become far less attractive, implying a medicine far worse than the disease. The other would be creation of a single European currency in a fully-fledged Economic and Monetary Union—a development which hardly seems just around the corner! Given these big swings in



capital flows to which West Germany is subject, it must seem remarkable that the Bundesbank is able to control domestic money supply much at all. Indeed the bank itself has sometimes been a bit surprised by its own success. When it first announced a target for the growth of central bank money stock a decade ago, there were those very scowling at the Bundesbank who talked of "hocus pocus." Yet the bank has generally achieved its aim, not by slavish concern for monthly (let alone weekly) money supply figures, but by pragmatic adaptation of policy over the year.

Foot in door of market with big potential

Foreign Banks
JOHN DAVIES

MR JOHN SCHOENING, a down-to-earth German-American, is co-ordinating a new venture for Security Pacific Corporation, the ninth biggest U.S. financial services group. Fresh from a two-year stint in Hong Kong, he has begun building up a base for consumer lending and other credit operations in West Germany.

The U.S. group's main banking affiliate, Security Pacific National Bank, has already been running a branch in Frankfurt for 12 years, its business including credit and services for major international companies.

Security Pacific's new moves are modest for a group with total assets of \$40bn including consumer finance subsidiaries in the U.S., the U.K., Spain, Hong Kong and Japan. It has decided to buy two small finance houses whose names do not exactly have a familiar ring and whose headquarters are off the beaten track for international financiers.

But the finance houses, Bankhaus Bohl based in Frankfurt and Wifag Bank of Offenbach, have a total network of 14 branches scattered through Germany. For Security Pacific, the takeovers are a way of extending its consumer finance interests into yet another country. They are a foot in the door to credit markets, with big potential.

Security Pacific's moves are among the latest efforts by foreign banks to get some of the rich financial action in West Germany. The Americans are the biggest group of foreign banks and, perhaps not surprisingly, some of the most persistent and successful. More than 30 U.S. financial institutions have branches or offices in West Germany.

The Japanese, too, are richly represented, while the British, in discreet fashion, have established branches in key commercial centres. Altogether, well over 200 foreign banks

have branches or offices in West Germany, mostly in Frankfurt.

According to statistics published by the Bundesbank, branches of foreign banks had 2.24 per cent of total bank business volume last year. But this is not the full story by a long shot.

Activities submerged

Some foreign banks have fully owned local subsidiaries or large stakes in other local banks—and their activities are submerged in Bundesbank statistics covering, for example, private banks or regional banks. Moreover, a great deal of foreign bank business is not reflected in balance sheet statistics or else has its main impact abroad. In some fields, such as electronic banking, the U.S. banks have been making the running, while domestic banks have been much more cautious.

Foreign banks have always faced difficulties in loosening the grip of domestic banks on such commercial banking business. But while some foreign banks have retreated disappointed and bruised, others have become well established in the West German banking scene.

In the area of consumer credit, Citibank of the U.S. has found itself with major involvement through its stake of 92 per cent in the old-established KKB Bank, based in Düsseldorf. Citibank gained a shareholding in KKB at the same time as it took a stake in Trinkaus and Burkhart, the private bank, ten years ago.

While Citibank sold its share in the private bank to Midland Bank of the UK in 1980, it has built up its holding in KKB Bank. With a network of 268 branches, the consumer credit house had a balance sheet total of DM 6.2bn (\$2.25bn) at the end of last year. It had consumer deposits of nearly DM 5bn in 1.7m accounts and a lending volume of DM 4.9bn.

CONTINUED ON NEXT PAGE



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Preliminary figures from the balance sheet as of 31.12.1983.

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West German Banking and Finance 5

Setback in the wake of debacle at DAL

Landesbanks JOHN DAVIES

THE PUBLICLY owned Landesbanks in West Germany have been trying to strengthen their financial position during the last couple of years—with varying degrees of success.

As a result, Norddeutsche Landesbank, based in Hanover, and the Frankfurt-based Hessische Landesbank reached a milestone in their recovery programme by resuming dividend payments after a break of ten years or more.

On the other hand, Westdeutsche Landesbank (WesLB), based in Düsseldorf, felt obliged to put all of last year's operating profits into risk provisions and reserves, following the sudden emergence of problems at home and abroad. Hopes for resumption of a dividend payment were dashed.

One of the main reasons for WestLB's setback was the financial debacle at the Anlagengesellschaft (DAL), which is 90 per cent owned by four Landesbanks.

At the pinnacle of the Landesbank is a twelfth organisation, the Deutsche Girozentrale-Deutsche Kommunalbank, owned jointly by the Landesbanks and savings banks.

These 12 organisations have maintained a share of 19.17 per cent of the banking system's business volume and of total lending to non-bank customers during the past 10 years.

A broad-ranging and highly ambitious concept was pursued by Herr Ludwig Föllmer, who brought WestLB into being in 1969 through a merger of two

publicly-owned banks. Under his guidance, WestLB became a thriving universal bank, active nationally and internationally.

With group assets of DM 139.4bn at the end of last year, WestLB has become firmly established as the largest Landesbank and the third largest credit institution behind the commercial banking giants Deutsche Bank and Dresdner Bank.

In an in with a flamboyant and outspoken manner, Herr Föllmer brought WestLB increasingly into the international arena, with Eurodollar operations and other commercial leading abroad.

However, the degree of international involvement has been a source of rambunctious controversy. Critics, including politicians and savings banks, have been apt to question how their region is to benefit from certain foreign lending by Landesbanks.

With the international scene in any case requiring caution these days, more conservative views about the desirable nature and extent of Landesbanks' foreign business have tended to gain ground in some quarters.

On the domestic scene, Landesbank activities have raised many questions. In what fields should they concentrate on their own regions? Should they step in to aid troubled but important customers?

Political influences too great in the banks and are the banks apt to be a drain on state government finances? With access to considerable financial resources, Landesbanks have generally embarked on a universal bank approach, with wide-ranging activities, concentrated in but not necessarily confined to their own regions.

Property financing has played a major part in Landesbank activities, but has also led to considerable problems, Hessische Landesbank, for instance, required an injection of state aid after running into serious real estate difficulties in the early and mid-1970s.

In view of their public status, Landesbanks have at times felt obliged to demonstrate social responsibility by bolstering regional companies faced with difficulties.

Under Dr Bernd Thielmann, who became head of the bank in 1981 at the age of 38, Norddeutsche Landesbank has consolidated its recovery and

paid a 4 per cent dividend on last year's results after a 10-year gap in payments.

Norddeutsche Landesbank has established itself as the third largest in its sector—after WestLB and Bayerische Landesbank.

With more traditional views about the role of Landesbank coming to the fore, there has been considerable emphasis in recent times on co-operation with the savings banks.

The savings banks see the Landesbanks as their creation. But the Landesbanks have come to overshadow them by their sheer bulk and wider scope.

Savings banks have endeavoured to keep some influence over the Landesbanks through representatives on the supervisory boards and committees which oversee their affairs.

Herr Friedel Neuber, WestLB's present chief, a former Social Democratic member of the state parliament—represented a regional savings bank association on WestLB's supervisory board before getting the top management job.

Both Landesbanks and savings banks face a challenge in future because of the need to obtain more capital as a base for expansion of lending.

Nevertheless, Landesbanks which were had a legacy of problems from the past have been trying to put their houses into order and resume dividend payments as a prerequisite for any moves to obtain more capital.

On announcing Norddeutsche Landesbank's dividend payment, Dr Thielmann said that the bank had secured agreement in principle that the shareholders would provide capital for expansion.

However, there has also been discussion about the possibility of part-privatisation as a way of raising capital for Landesbanks.

In West Berlin, the city authorities have already embarked on the part-privatisation of the Berliner Bank, which now has a 100 per cent publicly-owned commercial bank.

Politicians within the Christian Democratic Union (CDU) have been weighing up the question of part-privatising the Landesbank Rheinland-Pfalz, based in Mainz.

Mr Schoening, who left Germany in 1952 at the age of 14 and worked his way up in the U.S. consumer credit business, says that administrative work of Bankhaus Bohl and Witag Bank may be merged.

Another financial concept falls from Mr Schoening's lips—venture capital. At present, he claims, it is virtually non-existent in Germany.

Venture capital as a means of helping entrepreneurs start up in new fields is a controversial theme in the German financial world.

But here, too, foreign financiers have been seeking a market niche. Citibank set up its own venture capital subsidiary in West Germany earlier this year.



Dr. Heinz Sippel, chief executive of Hessische Landesbank

Rigorous workload brings its reward

IN THE OLD days, Dr Heinz Sippel regularly took home a sheaf of papers to plough through at night after putting in as much as 12 hours a day at the Hessische Landesbank (Helaba) in Frankfurt.

These days, he reads documents in the car as his chauffeur drives him home, but tries not always successfully—to keep his evenings and weekends free.

After nearly ten years as chief executive of Helaba, Dr Sippel can afford to ease up a little. Brought in to put the ailing Landesbank on its feet, he has presided quietly over a process of fairly steady recovery and disentanglement from problem areas.

Dr Sippel, now 61, received a telephone call from Dr Helmut Geiger, head of West Germany's savings banks, in the autumn of 1974, asking him to switch from his job on the management board of Westdeutsche Landesbank to take over Helaba.

The Frankfurt-based bank had been the centre of rumour and controversy after running into heavy losses, mainly because of rapid expansion into real estate projects.

Dr Sippel concurred now that, when he accepted the challenge, he didn't foresee all the complex problems ahead.

He took a tough line over claims made against the bank as a result of its involvement in Banque de Credit International of Switzerland.

Dr Sippel also encouraged a more international outlook at Helaba, although the foreign share of its lending, at under 10 per cent, is today less than the average for Landesbanks.

One of the first steps he took was to put an English tutor on the payroll to give language lessons to the staff.

Sippel himself began studying English in his home town of Leverkusen, where his father, a technician at the Bayer chemical company, arranged for him to go to private lessons in addition to his schooling.

He also learnt the language—and claims to have gained insight into the English art of understatement—during two years as a prisoner of war in England.

At Helaba, he has succeeded, through a defusing of the controversy which dogged the bank for years. The bank, which returned to profitability in 1977, has been steadily re-building its reserves and has begun repaying DM 200m by instalments to its rescuers.

The only major problem he sees now is Helaba's involvement—along with three other Landesbanks—Dresdner Bank—in Deutsche Anlagengesellschaft (DAL).

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A market of big potential

CONTINUED FROM PREVIOUS PAGE

In his office on the fringes of Offenbach, Mr Schoening says that Security Pacific will explore possible new consumer finance acquisitions if the right

opportunities arise. But at the moment his problems are to consolidate what has already been started and to work out detailed market strategy.

He sees the operation offering a range of services such as personal loans, standby credit facilities, real estate mortgage

lending, giro accounts, some commercial lending and "small ticket" leasing (such as computer equipment).

Mr Schoening, who left Germany in 1952 at the age of 14 and worked his way up in the U.S. consumer credit business, says that administrative work of Bankhaus Bohl and Witag Bank may be merged.

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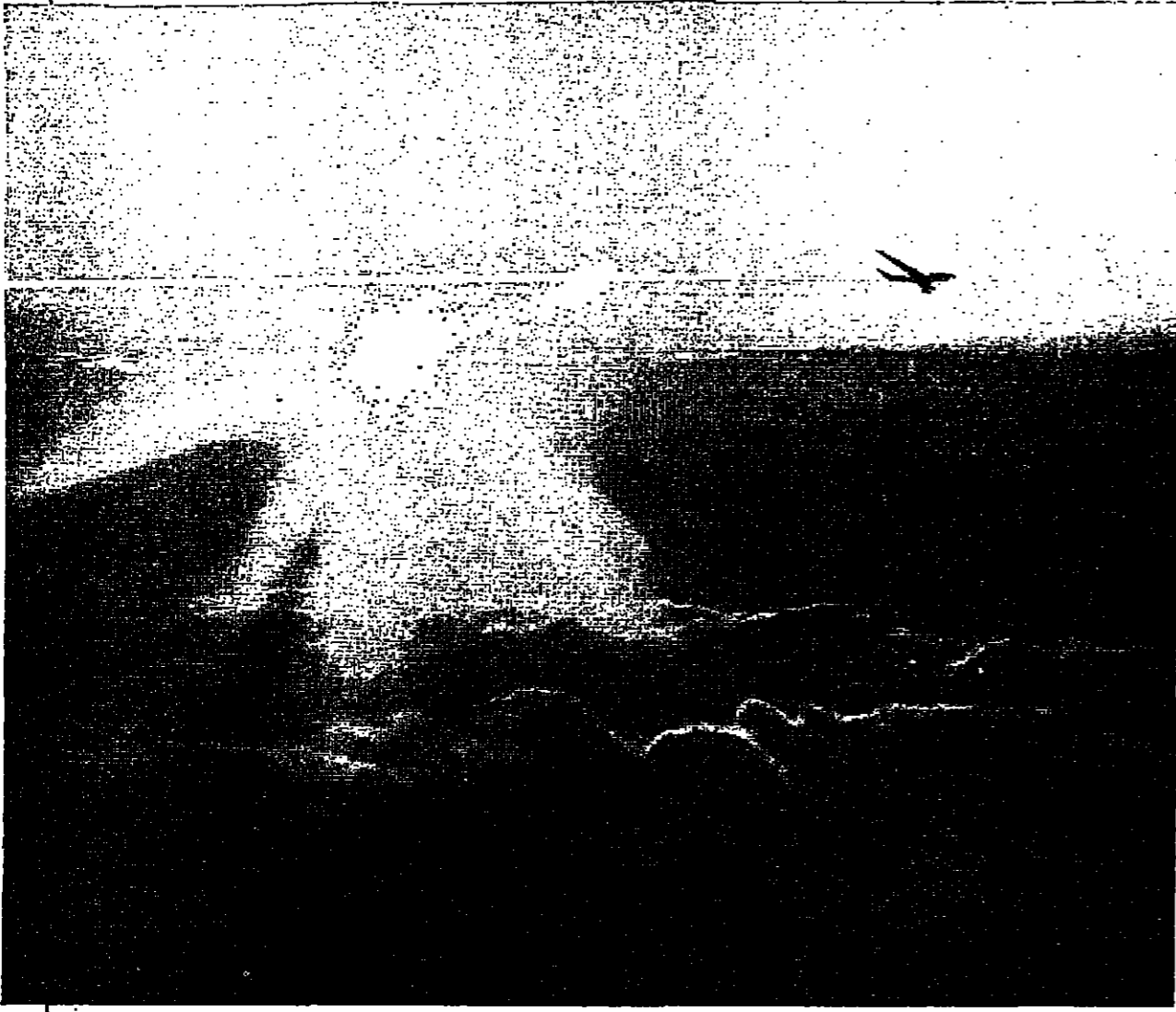
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West German Banking and Finance 6

VI

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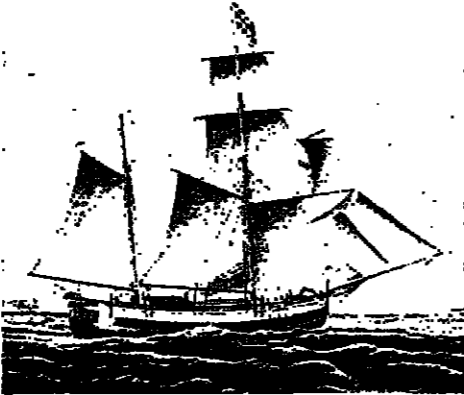
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Moving towards graduation from Kindergarten

Stock market
JONATHAN CARR

FOR many years mention of the West German stock market tended to draw ironic jokes or loud yawns. Investment chances were limited, profits generally small and the big banks dominated the show, as it was. For a country with the biggest Gross National Product (GNP) in Europe, West Germany's share circulation looked pathetically small.

Even in 1983, dubbed by domestic enthusiasts "the year of the share", the German stock market remained relatively underdeveloped. Share prices did rise on average by more than one-third, and 11 new enterprises came to the bourse for the first time. But then 1983 was a bullish year almost everywhere, with more than 800 new share issues in the U.S. and around 150 in Britain.

Moreover, economic growth was picking up quite strongly in Germany after two recessionary years, and a new centre-right government—more favourable than its centre-left predecessor to the needs of private enterprise—had come to power.

Basic changes

It would therefore have been astonishing if the stock market had not perked up under these circumstances.

Nevertheless, a basic change does seem to be taking place in Germany's attitude to the stock market though this is not yet fully reflected in the statistics. Businesses are recognising more clearly the advantages of "going public". The Government has taken some steps towards cutting taxes which work against share issues and meeting the need for reform of the stock market structure is in the offing.

This is a gradual process—not a revolution. But it implies that, even when economic growth falters again, the stock market is not going to be previously unimportant level and role.

Arguably, the biggest catalyst for change came not from within Germany itself but from foreigners—well before "the year of the share". Oil producers looking for ways to invest their surplus funds after the second major round of price increases in 1979-80, spotted evidently undervalued German shares. One senior Frankfurt banker even pins down the start of this development to a particular day—January 2, 1981, when the phone started ringing repeatedly on behalf of Arab buyers looking for share "bargains."

At any rate this outside injection of funds was one key reason why the stock market hardly lost ground in 1981, despite unfavourable economic conditions.

The second oil price hike had a strong influence in another way too. It underlined to German companies, and to their advisers in the banks, the perils of working with a dwindling capital base. In the early 1980s, capital and reserves made up, on average, about 30 per cent of the balance sheet total of German enterprises.

At the start of the 1970s, the ratio had dropped to around 26 per cent and by the early 1980s it was only about 20 per cent.

The ease of borrowing from the banks goes some way to explain why many companies did not bother to go to the stock market before—but it does not explain everything. After all

over the past 15 years German enterprises have covered an average only 5 per cent of their external financing needs through share issues; the number of joint stock companies (AGs) has dropped from around 2,300 to some 2,100 (of which less than 450 have an official stock exchange listing); and the number of private limited companies (GmbHs) has risen from fewer than 70,000 to nearly 300,000.

The organisational form of the AG has not been popular with entrepreneurs, despite the benefit it offers of access to equity capital. It is not hard to see why. For one thing the AG's are subject to the tighter board system under West Germany's Mitbestimmung (co-determination) laws.

This means that the companies have a supervisory board, made up of employee as well as shareholder representatives, which keeps tabs on the managing board. For another thing the AG's have to make their results public. The GmbH's are able to be more secretive about their business and they fall under Mitbestimmung rules only if they have more than 500 workers.

Against this background the old wisecrack that Germans do not put money into shares "because they don't like an involvement which goes up and down" looks pretty unjust. It is true that Germans for reasons of history and even geography (placed as they are on the borders of the communist empire) are unusually security conscious.

However, that does not mean they are unwilling to take risks if they see a fair chance of making profits. Until recently their stock market neither offered them much choice nor the prospect of making much money. Until the corporation tax reform of 1977, dividend payments were in effect taxed twice over. Even after that, tax measures (like stamp duty on equity issues) acted as a powerful dissuader to potential shareholders, and the government is only now coming to grips with these obstacles.

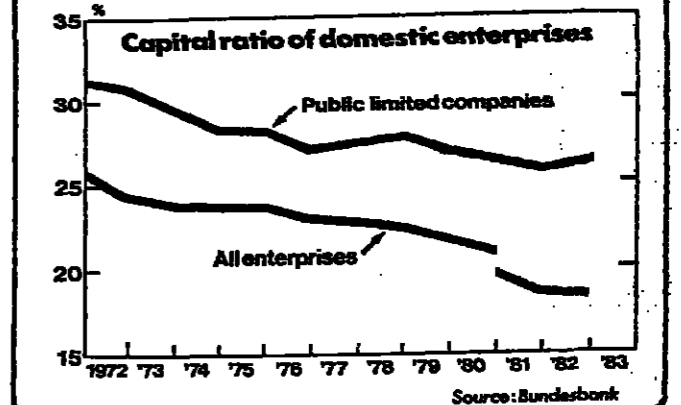
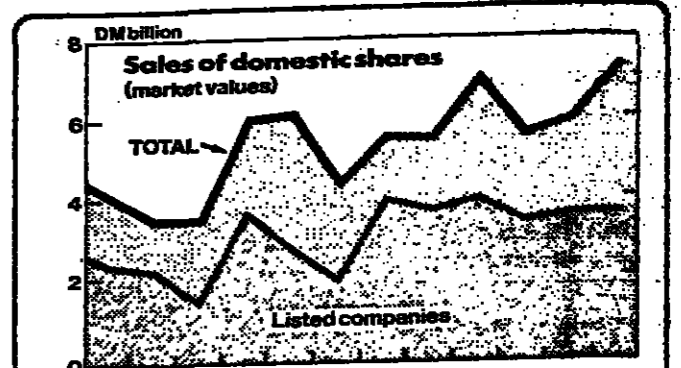
It is therefore surprising that over the years Germans even bought as many shares as they did. About one-sixth of German share capital is held by private individuals—less than the proportion held by enterprises but more than that held by banks. That Germans do not have a basic, temperamental aversion to share investment is shown by the over-subscription of many of the (admittedly fairly small) new issues last year. This year too the shares of two key bourse newcomers, Nixdorf the computer company and Porsche the fast car specialist, have been pounced on with almost frightening fervour.

Chalk and cheese

Astonishingly, so far only two institutions have consistently been bringing newcomers to the bourse—and they are as different as chalk and cheese. One is the giant Deutsche Bank (group balance sheet total DM 210bn) and the other is a Munich-based outfit called Portfolio Management (PM), run by five partners and with a total staff of 23.

Deutsche Bank has tended to handle the bigger companies in fairly traditional fields (like the hair cosmetic enterprise Wella, last year's largest stock market newcomer), while PM has concentrated on smaller concerns in new fields like data processing.

It is true that PM came in for



CIRCULATION OF DOMESTIC SHARES IN SELECTED COUNTRIES*

	1975	1980	1982	Compare GNP in 1982†				
	DM bn	% DM bn	DM bn	% DM bn				
Germany ...	78	2.5	91	2.3	98	2.0	1,599	10.7
U.S.‡	2,131	79.5	3,089	78.3	4,095	81.5	7,463	49.8
Japan	128	4.8	188	4.8	231	4.6	2,566	17.3
UK	240	9.0	422	10.7	428	8.5	1,167	7.8
France	41	1.5	35	0.9	26	0.5	1,314	8.8
Italy	64	2.4	117	3.0	145	2.9	844	5.6
Total	2,638	100.0	3,333	100.0	5,223	100.0	14,973	100.0

* Par value; level at year's end. Sums in foreign currency converted to D-Mark at the official spot rates at the end of each year. † Sums in foreign currency converted to D-Mark at the average annual official spot rates. ‡ Shares of domestic and foreign issuers. § End 1981.
Source: Bundesbank.

a lot of criticism because the share price of its biggest issue, a construction development company, dropped sharply.

Also PM's issues so far have been made through the two "lower tiers" of the stock market—the *geregelte Freiberkehr*, the over-the-counter market, and the *Telefonterkehr*, the unregulated free market. In other words none of the issues has had an official stock market listing, the "top tier" with the highest entry hurdles.

That said, PM has shown exceptional enterprise in exploiting a gap in the market and its activities have rarely been one factor prompting many banks to think again about their own attitude to the bourse. At any rate, whether out of recognition that PM is "onto a good thing," or out of fear that shaly secondary markets might mushroom beyond the official bourse, an intense debate has been underway about stock exchange reform.

The aim is to encourage more enterprises to come to the stock market, bolster investor confidence and remove some legal quirks which have caused problems. While no details have formally been made known, the broad outline of the reform (perhaps it would be better to speak of a "mini-reform") is pretty clear.

The hurdles involved in an official bourse listing (including publication of a detailed prospectus and payment of hefty entry fees) will not be reduced. Indeed they may turn out to be higher still when tough new European Community directives, already approved by the member states, are finally put into force. In other words the "top tier" of the stock market will tend to stay the preserve of the larger wealthier enterprises.

The main changes will involve the *geregelte Freiberkehr* which, despite its long

existence and the fact that it carries out its business at the Bourse, still has a rather shaky legal basis. Under the Stock Exchange Act of 1980, the use of bourse facilities is forbidden for trading in all but officially listed stocks.

Problem eliminated
One implication is that if the official committees running the stock exchange make errors resulting in claims against them, the individual members are freed from personal responsibility. The members of the bodies overseeing the *geregelte Freiberkehr* have no such protection under law.

Under the "mini reform" this legal problem would be eliminated (presumably through a small change in the Stock Exchange Act) and procedures on the "second tier" would be monitored at least indirectly by the official bourse supervisory authorities. Moreover, in contrast to the existing setup, companies coming to this segment of the market would be required to publish a report about their business—albeit one less detailed than that demanded of enterprises seeking an official listing.

It is going to be a hard balance to achieve—a market which gains much of the safety and status of the "top tier" without losing the flexibility which has been one of the attractions of the *geregelte Freiberkehr* to date.

Moreover, those responsible for the changes will have to find some way of ensuring that large, well-heeled enterprises which could well make it to the top shelf do not start heading automatically for the "second tier" as a soft option.

If the "mini-reform" is got right, and it could be in operation within about a year, then the German stock market will have taken one more step away from the kindergarten.

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West German Banking and Finance 7

Slowing on a rougher road

Leasing

JOHN DAVES

LEASING HAS been steadily growing in significance as a way of financing investment in West Germany, but the road ahead has been rougher in recent times.

The most spectacular case of problems in the leasing field is that of Deutsche Anlagen-Leasing (DAL), whose ever-growing risk provisions and write-offs have been giving splitting headaches to its hapless owners, mostly the publicly owned Landesbanks.

DAL is regarded as an exceptional case, with special tortious problems of its own. But its troubles also reflect some of the difficulties which the leasing field has encountered in the past couple of years.

After a long period of rapid expansion, leasing has been going through a time of consolidation, with more emphasis on profitability and more concern about risks. There has been a growing realisation of the pitfalls involved in failing to build up provisions against possible losses.

However, in a highly competitive environment, with tight margins on business, it has been difficult to build reserves. Moreover, optimism has in some cases prevailed over caution, in view of the favourable conditions of the West German market.

The total volume of new business financed by leasing in West Germany last year is estimated at DM 17.8bn (\$6.68bn). The annual amount has more than doubled since 1977, when it was DM 7.69bn.

New business has been growing at double-digit rates each year until restrained by the latest recession. After a 23.4 per cent growth in 1981, leasing slowed abruptly to a 4.8 per cent increase in 1982 and experienced an even more modest expansion of 4.6 per cent last year.

Despite the slowdown, however, leasing growth has continued to be ahead of the economy's overall investment performance, which tapered off during the recession. As a result, the share of total investment—apart from housing—financed through leasing has continued to edge up. The share has grown from 8 per cent in 1973 to 7.3 per cent last year.

Of the DM 17.8bn of business financed by leasing last year, "institutional" leasing concerns accounted for DM 11.55bn, while leasing operations conducted with manufacturers—either offshoots of the makers themselves or their dealers—handled DM 6.22bn.

These two broad sectors of the leasing branch have experienced different fortunes. For the first time since leasing took off about 20 years ago, institutional concerns suffered a setback last year. Their DM 11.55bn total of new business was actually 3.8 per cent less than the previous year's amount.

By contrast, the DM 6.22bn total chalked up by concerns connected with manufacturers represented a hefty 25 per cent

increase on their 1982 business. The institutional concerns were affected by a 16 per cent decline in leasing of real estate property. This more than offset a 5 per cent rise in the volume of other goods leased.

Over the years, the range of goods financed by leasing has continually widened. But office equipment, including data processing devices, has been the largest sector, accounting for 30 per cent of new leasing in 1982.

Leasing of factories and warehouses was the second largest segment in 1982, with 17 per cent of the market, while leasing of shops and office buildings accounted for a further 14 per cent. The motor vehicle market was still relatively restrained in 1982, making up 18 per cent of leasing investment.

Among clients, manufacturing and trading enterprises provided well over half of the business of leasing concerns. Manufacturers were the source of 38.4 per cent of business in 1982 and traders 18.5 per cent. Much of the expansion of some retail traders has been financed through leasing in recent years.

About 1.1m leasing contracts were in force in West Germany at the end of 1982, according to the Munich-based IFO economic research institute. At that time, the institute estimated, about DM 61bn of real estate property and equipment was covered by leasing contracts, the lion's share falling

to the institutional leasing concerns. Although total investment in the West German economy began to pick up last year, leasing faced a number of restraining factors.

For a start, economic revival has improved the profits and cash flow of many businesses, reducing the inclination to finance investment through leasing. More significantly, leasing operations have shown far more concern about the risks attached to their business.

Leasing companies have been faced with the sobering situation of a poor market for second-hand property and equipment in view of recession and rapid obsolescence.

Brighter trend

Prospects, however, appeared to be improving as economic growth gathered pace earlier this year, while the wave of insolvencies in the country evidently continues to recede. But competition among leasing concerns has remained intense with pressure on finance margins and profits.

Castling a shadow over the leasing branch is the ever-deepening misery of DAL, whose provisions for risks and write-offs on domestic and foreign business have steadily grown—having repercussions among its bank owners and beyond them, in political circles. DAL's problems came to a head last September when its

bank owners disclosed that they would have to cover write-offs and risk provisions estimated at DM 120m, a figure later recognised as far too small. The chief executive and two other members of the management board parted company with DAL and the reins of business were taken over by Professor Hans Wielenz, formerly a senior manager at Westdeutsche Landesbank (WestLB).

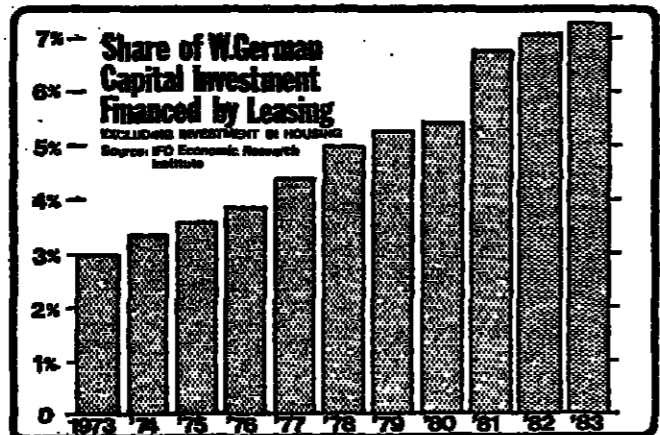
WestLB is the main shareholder in the troubled leasing concern, with a 30 per cent stake, along with Landesbank Rheinland-Pfalz (28.6 per cent), Bayerische Landesbank (16.7 per cent), Hessische Landesbank (16.7 per cent) and Dresdner Bank (10 per cent).

According to an agreed formula, the banks shared guarantees of a total of DM 224m to cover DAL's provisions of DM 250m for risks and write-offs on 1982 business. Now they face a very much larger burden for 1983. Risks and write-offs for last year were estimated some months ago at between DM 400m and DM 670m, but persistent rumors of much higher sums have turned out to have some substance.

Problems at DAL were a major reason why WestLB decided to put aside all of its considerable operating profits into its own reserves and risk provisions last year, abandoning hopes of paying a dividend to its shareholders—the state government, savings banks and other communities in North Rhine-Westphalia.

In a high-level shake-up at WestLB, two members left the management board, including an executive involved in supervising affairs at DAL.

Professor Wielenz, exploring a labyrinth of problems, has attributed much of DAL's plight to expansion into high-risk areas, including foreign business. Under a drastically re-orientated strategy, DAL recently proclaimed a goal of returning to profitability in 1986, with a slimmed down staff and a different approach to risk liability. But it may be some time before all the repercussions of DAL's troubles have fully worked themselves out.



Keep your guard up and come out fighting

Retail Banks

JOHN DAVES

IN MANY towns and villages of West Germany, savings banks and co-operative banks are old-established and familiar parts of the landscape, often eyeing each other warily across the road. At the local level, rivalry may be friendly and healthy, but at the national level, these two vigorous groups of banks are at daggers drawn.

Their long-simmering animosity has been brought to a head by plans to overhaul the Federal banking law. In some respects the proposed new law commands wide agreement, but on other points there is a crisis

cross of antagonism among the various types of banks in West Germany.

The 682 savings banks, with a total of more than 17,500 branches, are unhappy because they feel their special requirements have been overlooked by the law makers. They have been pressing for the right to regard guarantees as being as good as actual capital as a base for lending. They argue that a similar right has been enjoyed for years by the 3,760 co-operative banks, with their 16,000 branches.

The savings banks attach considerable importance to their demand because they see little prospect of raising new capital for expansion from their financial backers—the local community and the authorities, which tend to be hard up for funds these days. But local guarantees would be as good as capital, they argue.

Although some state politicians have come down in favour of the savings banks, the political powers in Bonn have chosen to withstand the savings banks' demands, which are also opposed by the big commercial banks.

Determined to press on with their fight, the savings banks have made it clear they will appeal to West Germany's Constitutional Court if the draft law now before federal parliament comes into force in its present form. They will ask the court to strike down the law on the ground that it discriminates against savings banks in relation to co-operative banks.

In the hope of avoiding a messy legal wrangle, the seeds of a possible compromise are being sown—although at this stage the idea still contains many uncertainties.

The idea, taken up by Dr Gerhard Stoltenberg, the Finance Minister, is that bank capital could include "Genussscheine," financial paper entitling investors to variable earnings related to profits and generally without voting rights. The savings banks have indicated they might be prepared to accept this as a basis for agreement, provided certain conditions are met. They see the need for restrictions on the type of investors able to buy Genussscheine, in order to hinder purchase by large banks or foreign interests. Moreover, they do not want the co-operative banks to retain their present benefit plus the right to include Genussscheine as capital.

Dr Stoltenberg has hinted that the full extent of the benefit at present enjoyed by co-operative banks could be reviewed. He has suggested that the concession, dating back 50 years, could be examined to see whether it was appropriate in today's changed competitive circumstances.

In controversy over the banking law, the co-operative banks' supporters include members of the Free Democratic Party (FDP), a junior party in the Bonn coalition government. The FDP sees its role as, partly, to protect the interests of small businesses and self-employed people—the type of individuals

who may be members of co-operative banks.

The FDP's members, however, claim that the FDP is misguided politically. They point out that the nature of co-operative bank members has changed over the years, with an increasing proportion of housewives and workers, who would not necessarily be FDP supporters.

For their part, the co-operative banks argue strongly for retention of their right to include in their capital base a sum for guarantees provided by members.

Justified action

The co-operative banks deny that the liability of members is a fiction. They concede that members have not been called on to support the few co-operative banks that have fallen into difficulties since the war. Instead, a safety net created by the whole movement has been rushed into place. But the co-operative banks see this as justified action to protect the interests of members, despite their potential liability.

What's more, the co-operative banks display a relaxed attitude to the threat of facing a Constitutional Court challenge. They claim that abolition of their special right, not its retention, would be against the constitution.

How the controversy develops will depend to a large extent on negotiations in the months ahead as the proposed new banking law is examined by members of parliament and banking representatives. The savings banks press on, however, that even if a solution is found on the basis of Genussscheine, this would have to be laid down not only in federal law, but also in the state laws affecting savings banks—and it is not certain that all states would comply.

Whatever the outcome, the savings banks—along with other banking sectors—will continue to keep a close eye on the co-operative banks. These banks have proved to be sturdy competitors, with a steadily expanding share of West German banking business.

In 1980 the co-operative banks had a mere 5.61 per cent of total bank business volume, but increased their share to 7.71 per cent in 1970 and 10.92 per cent in 1980. They have continued to gain ground in recent years, their share rising to 11.17 per cent in 1981, 11.37 per cent in 1982 and 11.55 per cent last year.

By contrast the savings banks—a much larger sector of the banking community—have clung to a fairly constant 22 per cent of bank business volume over the last 30 years. Commercial banks are among those which have actually lost ground over the years. The Federal Bankers' Association has pointed out that the large commercial banks, regional banks, private banks and foreign banks have seen their total share of business volume decline from 24.57 per cent in 1960 to 23.58 per cent in 1980 and 21.79 per cent last year.



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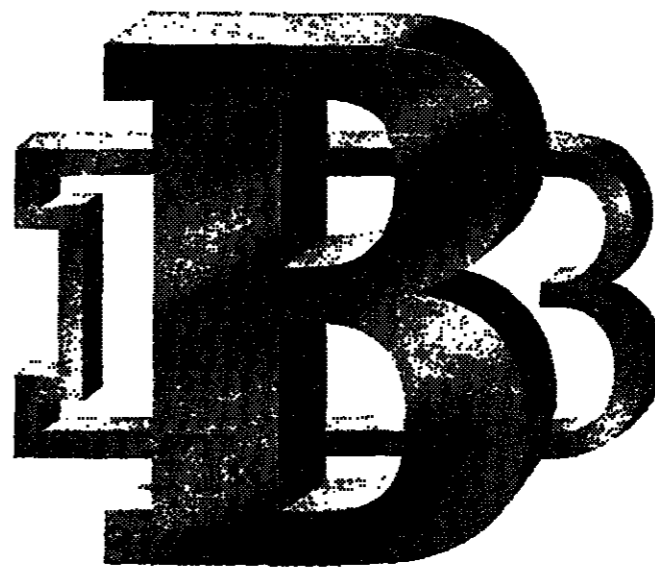
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Balance Sheet '83

Investment for the Future

Our Business Volume well surpassed the 11 Billion DM level in 1983. Including legal and voluntary reserves our Equity at year-end is 458.5 Million DM. Our Growth, greatly aided by our Branches in the Federal Republic of Germany and our London Branch, was the result of both customer and interbank business.

From our Report:	1983	1982
(in Million DM)		
Loans	5,812	5,342
Deposits	6,763	6,918
Due from banks	3,477	3,099
Due to banks	2,801	2,110
Total Assets	11,469	10,679

Included in our Group Report are, among others, the Berliner Bank International S.A. in Luxembourg, Allgemeine Privatkundbank AG in Hanover, and the Braunschweig-Hannoversche Hypothekenbank AG. Total Group Assets were 22.4 Billion DM at the end of 1983. Upon request we would be pleased to provide you with our 1983 Annual Report.

We are now represented by 81 Branches in Berlin, six Full Branches in the Federal Republic of Germany and a Branch in London, 1983 once again was marked by substantial investment in the development of our Branches outside Berlin and our technical banking systems. With a clear decrease in provisions for losses, which we were able to more than halve against last year's, we achieved a Net Profit of 20.7 Million DM, permitting payment of a dividend of 12%.

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Some figures on our performance in 1982/83:

	1982	1983
- Balance sheet total:	DM 8,17 billion	DM 8,79 billion
- Due from customers:	DM 5,61 billion	DM 6,23 billion
- Due to customers:	DM 6,14 billion	DM 6,60 billion
- Reserve funds:	DM 0,31 billion	DM 0,35 billion

Members of the Board of Managing Directors:
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Ulrich Nölle
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The monarchs of Munich

Insurance

JONATHAN CARR

THE TWO monarchs of the West German insurance world have their palaces, appropriately enough, in Munich's fashionable Königsplatz. "Palace" is certainly not too strong a word for the headquarters of Münchener Rückversicherung (Munich Re), with its elegant halls and art treasures. And what the main building of Allianz Versicherung, close by, lacks in ornamentation it makes up for in size.

The two companies have much more in common than their address. They have close historical links and each holds a 25 per cent stake in the other. Both have big financial muscle, interlocking holdings in business and industrial enterprises and, incidentally, stability of topmost management.

Munich Re, the world's biggest reinsurer, came first. It was founded in 1880 by an agile insurance agent called Carl Thieme who

not only saw the need for an independent reinsurer company but did much to expand the market itself once Munich Re was in place. His simple theory; the more classes of insurance there were the more reinsurance business there would be.

Hence Munich Re's efforts to propagate accident insurance which led to the foundation (in 1890) of Allianz, and its interest in credit insurance which helped bring Hermes Kreditversicherung into being. Nowadays the federal government uses Hermes (Munich Re stake 50.5 per cent, Allianz stake 25.2 per cent) as its agent for export credit insurance.

Not much joy

The reinsurance business itself does not bring much joy these days to Munich Re (or indeed to its foreign rivals). Premium income rose in the 1982-83 year by 5 per cent to DM 9.6bn, but losses increased from DM 248m to DM 370m. The reason? Fierce competition continued to prevent a rise in premium sufficient to cover growing risks.

On the other hand profit from the non-reinsurance side, mainly investment income, rose sharply to DM 435m from DM 332m so that overall Munich Re stayed, as usual, nicely in the black. And what investments—with a book value alone of more than DM 10bn! Not surprisingly Munich Re has stakes in Allianz subsidiaries including 46 per cent of Allianz Lebensversicherung, easily the country's biggest life insurer. But it also has (often with Allianz) big indirect holdings in industrial companies like Gutehoffnungshütte, Degussa and Hoechst.

Ruler of this empire, that is head of the managing board, is Herr Horst Jannott, a balance sheet wizard who joined Munich Re in 1954 and has had the top job since 1969. Just as Munich Re has flourished under Herr Jannott so Allianz has grown under Dr Wolfgang Schieren, who has been with the company since 1956, and became chief executive in 1971.

In the last eight years alone premium income has more than doubled to DM 15.4bn making Allianz not only Germany's biggest insurer but one of the

world's top ten. Last year's pre-tax profit totalled DM 561m, of which DM 182m came from reinsurance and DM 379m from Allianz's DM 11.1bn worth of investments. It can fairly be assumed that Dr Schieren shuffles at least one quarter of Allianz's reinsurance business in Herr Jannott's direction.

The German press has more than once compared Dr Schieren to "Superman". A more apt comparison might be to Alexander the Great, who ran out of (easily accessible) worlds to conquer.

With its top position in both the domestic life and non-life business, Allianz cannot expand much at home without running afoul of the cartel authorities. Hence its growing drive abroad which has pushed the foreign share of premium income in the last six years from about 6 per cent to more than 17 per cent.

There are two big holes in its foreign coverage which Allianz is trying hard to plug. The British market and the non-life sector in the U.S. Allianz failed in its bid last year to take over Britain's Eagle Star, but what a



Balance sheet wizard, Herr Horst Jannott, head of Münchener Rückversicherung

failure! Allianz netted a clear DM 550m profit from the affair which allowed it, as it were, to cry all the way to the bank. In the U.S. Allianz this year considered taking over the insurance interests of the Arco group but finally decided against this. It will surely not be long before the right opportunity turns up for an acquisitive concern with so much cash to spare.

The spirit of an elite if dwindling band

Small Banks

JOHN DAVIES

"WE INTEND to maintain the style of a private bank," says Mr Paul Brown, a large and ebullient figure puffing away at a pipe. Mr Brown, sent in by Lloyds Bank of the UK, has stepped confidently into the senior role at Schröder, Münchmeyer, Hengst (SMH) in West Germany.

Not a man to be easily overruled, he has taken over the office formerly occupied by Count Ferdinand von Galen, the chief partner in the old SMH. After long enjoying a prestigious reputation world-wide, the old SMH suddenly became the country's number one banking problem last November.

Under Count von Galen and his fellow partners, SMH got ever more deeply involved in the tangled financial affairs of the ill-fated IBE construction equipment group, founded and headed by Herr Horst-Dieter Eech.

To enable the bank to keep its doors open, the West German banking system pumped in substantial aid after a late night session of talks called by banking supervisory authorities.

Longing eye

Lloyds Bank, which for some time had been casting a longing eye over various banking institutions, succeeded in buying the "healthy" parts of SMH to acquire a stronger foothold in West Germany.

It is endeavouring now to carry on operations in the spirit of the country's elite, although dwindling band of small private banks, many with a long history. Lloyds formed a new company, capitalised at DM 100m (\$87m), to take on the name and staff of SMH and to run the old bank's investment banking business and some of its commercial business. But it refused to take over anything to do with IBE, as well as some other commercial activities, including high-risk fur trade business. The problem areas remained — with the old bank renamed Hengst — for the German bank-

ing system as a whole to unravel. Before the crisis, the old SMH had a balance sheet total of DM 2.2bn. The new operation, under Lloyds' aegis, began on January 28 with a balance sheet total of DM 991m, including DM 429m of customer deposits.

A rising trend

Mr Brown says that the outflow of clients' business stopped as soon as Lloyds took over. "The balance sheet total is rising and is well in excess of DM 1bn," he says.

He points to a rising trend in all three main types of activity — investment banking (including stock exchange business), trade finance, and "middle market" business (lending and services for medium-sized companies). He denies that Lloyds bought SMH simply because of its investment banking interests.

The bank has been profitable from the day of the takeover, despite its heavy staff burden, he says. "IBH was totally out of character with the rest of the bank and with how the rest of the bank was managed," Mr Brown says. The old bank in fact had a successful recipe of expert staff and a sound strategy, he believes.

The legacy of the past—the question: how did it happen?—has inevitably been the first topic of conversation with customers. But once over that hurdle, the Lloyds managers have been quick to assure clients that the bank, with basically the same staff, will continue to operate along the lines of a private bank.

Moreover, Mr Brown argues, Lloyds Bank International itself is relatively small and encourages nimble-footedness. "The way we approach business is very similar. Everybody has to show a lot of initiative."

Mr Brown says that SMH and Lloyds Bank in Germany at present are co-ordinating their activities, but "sooner rather than later" Lloyds activities will be brought together with those of SMH. Although it is not yet clear exactly how this will be done, he predicts that the process will be completed within a year.

Lloyds Bank in Germany, with a staff of 90, has many operations which are a good fit with those of SMH, which has a much bigger staff of 375, he points out.

Mr John Hobbly, sent in by Lloyds as one of the SMH general managers, says that Lloyds itself has branches in some West German cities where SMH is not represented. Their trade finance activities are complementary, with Lloyds involved in financing exports and transit business, and SMH more involved in financing imports.

However, the two banks have different types of foreign exchange dealing rooms, SMH concentrating on customer dealings and Lloyds more oriented towards arbitrage. For this reason, although the aim is to bring the two bank organisations together, they may continue to run two separate foreign exchange trading rooms, Mr Brown says.

Focused attention

The problems at the old SMH inevitably focused more attention on West Germany's private banks, whose financial affairs are even more heavily veiled than those of other banks. But SMH is seen as an aberration which has done little damage to the standing of private banks in general—particularly as no non-bank customer lost any money, thanks to the banking system's rescue operation.

The number of private banks has been falling steadily for many years. There were 148 in 1973 and only 76 at the end of last year, while their share of total bank business volume during this period has shrunk from 2.17 per cent to 1.38 per cent.

But much of the activity of private banks does not show up in the balance sheets, and they remain a vigorous banking element in West Germany, enjoying fairly lucrative earnings in recent times, judging by available figures.

In quite a few cases, private banks have developed close ties with larger institutions, while endeavouring to continue operating in their traditional spirit. Lloyds sees its involvement with SMH as being in line with this tendency.

Electronics spur a change of image

Technology

JOHN DAVIES

HERR WOLFGANG BLASE is one of the younger generation of company finance chiefs in West Germany who feels completely at ease in the fast changing world of office computers and banking technology.

As head of the finance department of a U.S. subsidiary, he has been supervising introduction of a system of personal computers, partly to benefit from international electronic banking services.

Although it has a conservative image, West Germany these days is beginning to show more interest in electronic banking. U.S. banks have been promoting cash management systems for some time, but major West German banks have also entered this field.

Increased interest has been spurred lately by the development of Bildschirmtext (Video-text), which despite many problems offers the prospect of a national system of conducting routine bank transactions from home or the office. Moreover, there is growing realisation of the part which relatively cheap personal computers can play in an electronic banking system.

For Herr Blase, finance and advanced technology have gone hand in hand, not only during his career but also during his studies. At the universities of Bochum and Dortmund, he studied economics and business administration—as well as the fundamentals of electronic data processing.

He then spent two years in the finance department in Germany of many of Hewlett Packard, the U.S. computer concern, gaining insight into the use of personal computers and the development of software.

After two years in the finance department of another company, he has been for the past year finance chief of the West German subsidiary of Kimberly-Clark, the U.S. "Kleenex tissues" company.

At the company's offices in Koblenz, Herr Blase has supervised introduction of an electronic banking service offered by Citibank of the U.S. Through personal computers, his department receives bank account data, as well as a flow of information on interest rates and currency exchange rates as a basis for financial decision

making. It also makes electronic transfers of funds to the parent company in the U.S. and other Kimberly-Clark subsidiaries in the UK, France and Holland for raw materials and for semi-finished and completed goods.

Herr Blase is keen to extend the use of personal computers to draw together and process data from various sources, including domestic bank transactions, thus providing a comprehensive basis for up-to-date financial management.

He is convinced that corporate finance departments must increasingly exploit the benefits of new technology—a view gaining ground against more traditional attitudes in West Germany.

In line with this trend, Dresdner Bank, the country's second largest bank, recently launched a cash management

system designed to handle international and/or national transactions and centred on personal computers.

Dresdner worked with National Data Corporation of the U.S. in developing elements of the system, dubbed Drecam, which involves balance reporting, money transfers and treasury management.

Internationally, it envisages data flows through the General Electric global transmission system. Nationally, it foresees data flowing between customers and various banks via the Bildschirmtext computer network being put in to place by IBM for the Bundespost, the postal and telephone authority. Dresdner points out that the Bundespost has already, on request, approved the interface of Bildschirmtext devices with personal computers.

Herr Hans-Joachim Brückner, a Dresdner technology expert, says that the Drecam system is currently being presented to the bank's corporate clients. The system can be adapted to individual needs, drawing together and working on information from various sources,

including the user's own data base.

Dresdner has been carefully biding its time and analysing market requirements while some other banks—notably major U.S. banks—have been promoting international cash management and reporting systems. Citibank and Chase Manhattan have been prominent in the field, while Commerzbank launched a system more than a year ago based on the Chemical Bank model and now named Cobra.

One of the big obstacles to the spread of electronic cash management in Germany in the past has been the reluctance of domestic banks to exchange data to enable a comprehensive system to be built up for a client. This problem may be resolved by the banks arranging to channel data through the Bildschirmtext system, to be called up by clients.

In the immediate future, Bildschirmtext is thought more likely to appeal to business clients rather than householders, but the Bundespost—and banks—see home banking eventually becoming popular.

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— Johann Wolfgang von Goethe —

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SECTION V FINANCIAL TIMES SURVEY

Wednesday July 4 1984

UK Engineering

A remarkable rise in productivity has come almost entirely from a massive cut in the workforce. The surge in capital spending is strong evidence of recovery.

Confidence rising as output goes up

By Ian Rodger

BRITAIN'S BATTERED engineering industry is on the way back. Output is up, profit is up, liquidity is up, and most important, confidence in the heart of traditional British manufacturing is being restored.

This new confidence has been reflected first in the stock market, where the engineering group of shares has been outperforming the market as a whole. In the past year, the FT-Actuaries mechanical engineering index is up nearly 13 per cent, while the all-share index has risen only 5.4 per cent.

More recently, confidence has appeared in a more tangible form in a long-needed surge of capital spending, which indicates that investors now believe there are good profits to be made in engineering in Britain.

It is also there in scores of anecdotes from companies once again proud to offer their much-improved products in both home and export markets, or delighted to discover that UK managers and workers can perform as well as their West German, Japanese, and American competitors.

"We are now able to demonstrate a competitive product coming from the UK," says Mr Trevor Lamb, the director of IHI's fluid power division, a large producer of pneumatic fittings and controls with factories in the U.S., Italy and Britain. "I was worried about whether the workforce would accommodate change, but attitudes have changed, and I will continue to invest here."

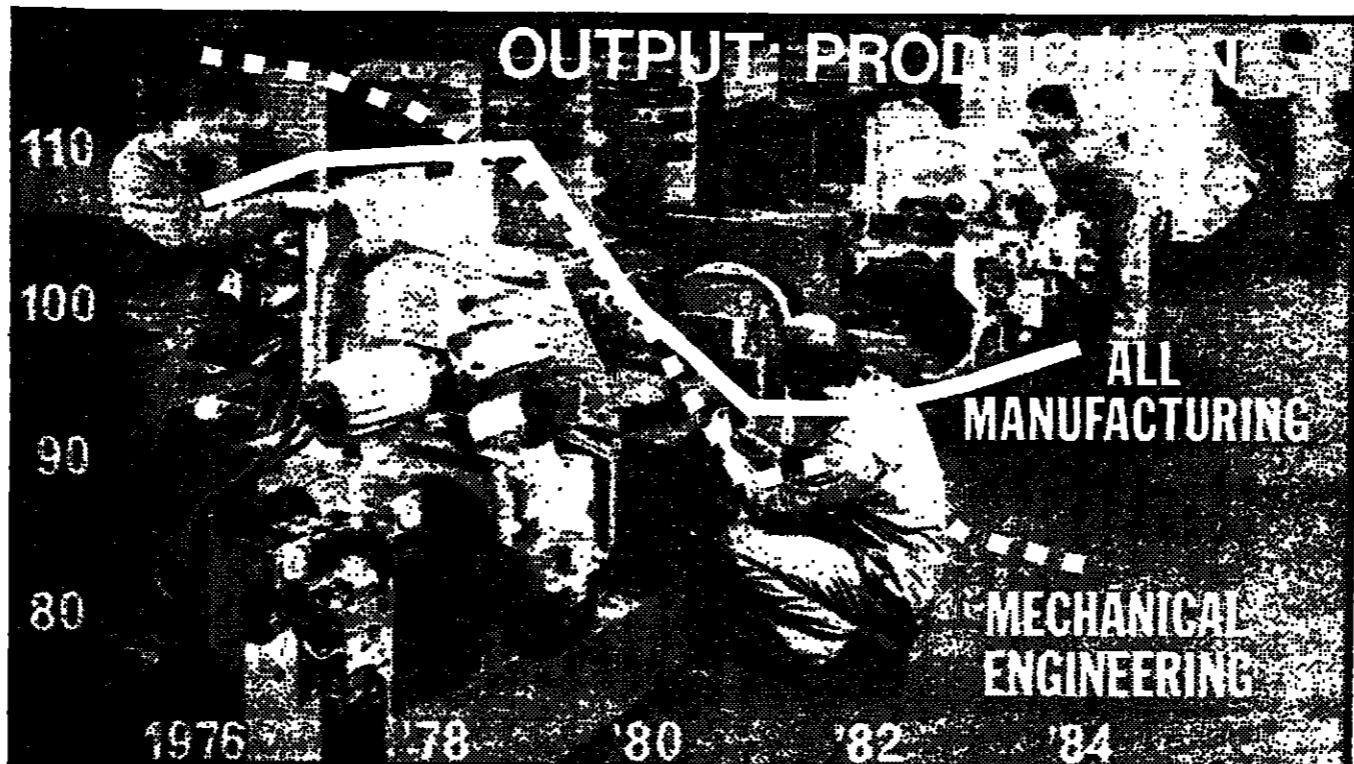
The recovery in the engineering industries is certainly timely. Last year, for the first time since the industrial revolution, Britain suffered a trade deficit in manufactured products.

Over the past decade, the deterioration in the trade balance stemmed largely from the decline in the international competitiveness of the motor industry. But more recently, some of the traditionally stalwart sectors of the engineering industry—construction equipment, engines and agricultural equipment—performed badly as well.

There will almost certainly be another deficit in manufactured goods this year, but the recovery of competitiveness in many sectors of the engineering and motor industries gives grounds for hoping that the trend will change soon.

The loss of competitiveness of British industry in the 1970s hurt most sectors of engineering, but there have been surprisingly few casualties.

The foundry sector is perhaps the only major one that has simply not been able to cope with the rapid changes in its environment. A lot of capacity has been lost and some remain-



ing foundries still do not seem to produce castings of the rising quality that manufacturers need if they are to be internationally competitive.

Damage

Other sectors, notably drop forging, are having difficulties recovering because their skilled workers have gone elsewhere and seem loathe to return. And it is still unclear how much lasting damage has been done to the construction equipment industry, shaken by the collapse of the West German IBE Holdings group last year and by an assault by Japanese manufacturers.

Other sectors have been badly scathed but companies in them have doggedly rationalised, improved their products and productivity and fought back. The fork-lift truck and machine tool makers, for example, are beginning to beat back significant Japanese penetration, and the important agricultural tractor sector seems stronger than it was three years ago despite its fragmented state.

in the UK and counting heavily on a plastics machinery business for its recovery.

Whatever businesses they are in, the managers and workers of most engineering companies today know they are involved in an endless struggle to win and hold on to markets both at home and abroad, a situation that forces them constantly to seek ways to improve their products and productivity.

It is a startling experience to meet a manufacturer who has closed a factory and made thousands of workers redundant, and hear him say that he still has to cut his costs by another 20 per cent. But that is a fairly common view in industry today.

Co-operate

Babeck, for example, has cut the workforce at its Rentrow, Scotland boiler factory from 5,000 in 1977 to 2,800 and trade unions have co-operated in eliminating in-

efficient work practices.

But Mr Mike Hoffman, managing director of Babeck, makes clear there is still a long way to go. He estimates that Korean manufacturers can make boilers at 40 per cent lower cost than Babeck. A few years ago, a British engineering company might easily have despaired at the recognition of such a competitive disadvantage. But Babeck is planning to invest £80m to modernise Rentrow.

Mr Hoffman says this will not close the productivity gap completely, but he is gambling that the group can make up in innovation and design what it loses to the Koreans on labour costs.

The remarkable 19 per cent rise in productivity in the engineering industry in the past four years has come almost entirely from the massive one-third cut in the workforce that has occurred.

That, as one manufacturing director says, was the easy part. Now all the talk is of value

engineering — designing products so they can be made better but at lower cost — and of increasing the flexibility of manufacturing machinery so that costly work-in-progress can be reduced and customer response time shortened.

The present government has often seemed interested only in high technology and service industries, and manufacturers in traditional sectors grumble that their needs have been forgotten. But a series of government programmes to help manufacturers to renew technologies to improve productivity is beginning to make an important contribution.

For example, the country has one of the highest rates of usage of sophisticated computer-controlled machine tools in the world, even slightly ahead of Japan.

Also, government ministers are aware that, in the near future, Britain is once again going to have to rely heavily on its manufacturing industries to support the balance of trade. The more competitive British industry becomes, the less the exchange rate will have a fall when the oil surplus disappears.

Tomorrow, Mr Kenneth Baker, Minister of State for Industry, is expected to make a major speech indicating the Government's view of the role of manufacturing industry in the economy.

He is to speak at an important three-day conference at Cambridge on strategies for survival and success in manufacturing, sponsored by the major professional engineering institutions.

The engineering industries are also getting a boost from the new Engineering Council, which was formed two years ago partly to take over the professional accreditation responsibilities of the Council of Engineering Institutions. But it was also intended to update engineering training programmes and try to present the engineering field as an exciting and attractive one for young people to enter.

The Council has begun strongly seeking more Government funding for engineering education and training. It is also intended to update engineering training programmes and try to present the engineering field as an exciting and attractive one for young people to enter.

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Editorial production: Michael Strutt
Layout: Phil Hunt

rigorous in their questioning of managers.

In a recent initiative called WISE 84 (Women into Science and Engineering), it is also trying to convince young women students that engineering is not dirty and dull.

Mr John Butcher, the Junior Industry Minister, has already joined the campaign, saying he would be proud if, in a few years' time, his son married an engineer.

It is difficult to estimate just how well the British engineering industries can do. Certainly, there is considerable room for improving their market shares, both at home and abroad.

Good design and automation can reduce the importance of differing labour costs, and British engineers still pride themselves on their innovative

The challenge, as Mr Roy Roberts, managing director of GKN, puts it, is to "connect our innovation abilities to at least good production standards. Provided we do that, I believe this country can become again a good manufacturing base."

Oil and gas exploration and production is one of few sectors where many separate pieces of supportive machinery are 'strung' together as an integrated whole; where each piece can be exposed to harsh environmental conditions, and consequently can stop a whole chain of supportive operations. Therefore considerations such as toughness, reliability and safety are often as important as the degree of sophistication where rolling bearing arrangements are concerned.

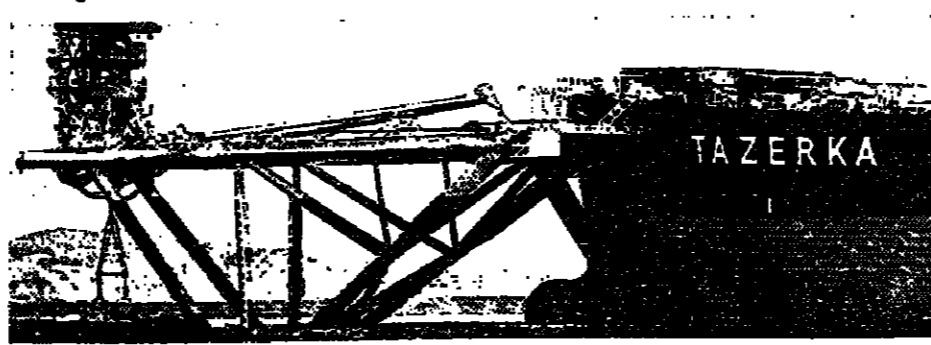
"To achieve high performance and reliability, even simple components can demand a level of capability and technology that will stretch commitment to the limit."

Slewing rings swing 210,000 dwt Tazerka.

Just off the Mediterranean's Tunisian coast lies the 1.2-million-barrel Tazerka oil production, storage and off-loading facility operated by Shell-Tunirex. This integrated multi-well (max. 8) unit is one of some 150 custom-designed offshore system contracts carried out by Switzerland-based Single Buoy Moorings (SBM Inc.).

The floating unit is moored in 140 metres of water by a rigid yoke structure attached to an above-water swivel assembly. A tubular riser, pre-tensioned by the yoke's submerged buoyancy tank, connects the assembly to a seabed gravity base and acts as a support for product control and service lines. The swivel arrangement includes a main 4.5-metre diameter, 13.6-tonne triple-row roller bearing of special steel, a similar 4.2-metre/3.5-tonne turntable bearing, and six 1.5-metre bearings.

All of which help the vessel to weathervane — swinging to minimize resistance to wind, waves and current. All are special-duty sealed bearings from RKS — slewing ring specialists of SKF. A spare 13.6-tonne main bearing in a 10-year protective pack, weighing in total 17.5-tonnes, is strategically positioned above the acting main bearing.



Fitting 69-tonne, 11-metre diameter propellers.

Following the sharp fuel cost increases, full power operation was no longer economical for five Norwegian 350,000 dwt tankers: Wind Escort, Wind Enterprise, Wind Eagle, Velma and Vanja.

In early 1980, the owners decided to derate the ships' power by changing the overall gear ratio, fitting new nozzles and diaphragms in the HP turbine, and by fitting a new fixed pitch propeller manufactured by Stone Manganese Marine of Birkenhead, England. The 5-vessel retrofit was carried out at the Arab Shipbuilding and Repair Yard, Bahrain, with improved vibratory levels, manoeuvrability and fuel usage as a result.

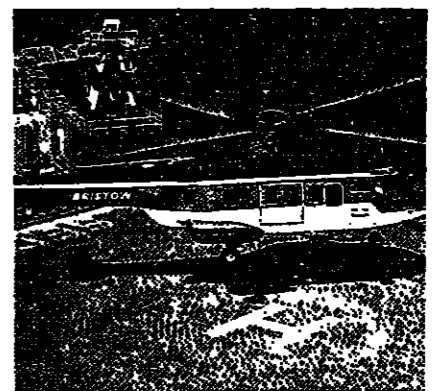
The 69-tonne, 11-metre propellers were mounted using the SKF oil injection method. Pressure-injection of oil between the tapered tailshaft and the propeller's mating surface considerably reduces the force needed to drive the propeller onto its seating. The oil pressure is then released and a heavy interference fit results.

Safety critical components for North Sea helicopters.

Forefront helicopter fleet operator, the 30-year-old Bristow Helicopter Group, is also in its 20th year of North Sea oil-support operations.

Of its nearly 200 helicopters working worldwide, a fleet of AS332L Tigers — Bristow's advanced offshore support version of Aerospatiale's 2-engine Super Puma — operates to rigs and platforms up to 300 nautical miles from its Aberdeen base.

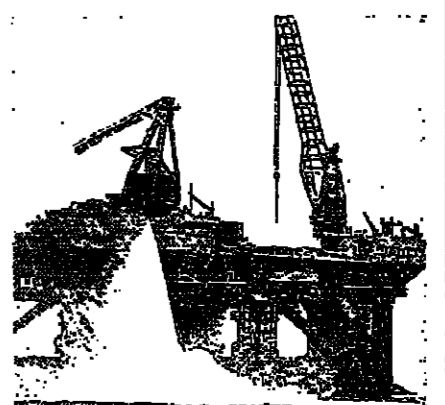
Bristow's on-the-job, all-weather experience went into the sophisticated navigation and other technical equipment fit, plus flight comfort/safety design, for this 19-passenger 268 km/h modified craft.



Safety critical aerospace components from SKF for basic Super Puma models include planetary spherical roller bearings for the epicyclic gearbox, Sarma control rods and cables, plus airframe bearings and ADR miniature instrument bearings.

KaMeWa keeps MSV positioned.

"Keeping station" against wind, waves and current is a safety critical factor in Consafe Offshore's Multi-purpose Support Vessel (MSV) Safe Karinia. This semi-submersible platform, with an operational displacement of 14,560 tonnes, uses any of 3 methods to stay accurately in position: 8-point anchoring, anchor mooring plus automatic anchor assist, and computer-aided dynamic positioning (DP). Marine propeller specialists KaMeWa supplied the DP propulsion units: 2 x 1,500 kW fixed thrusters for the starboard pontoon and 4 x 2,400 kW rotatable thrusters — one under each column.



The thruster's torque transmission shaft from the electric motor is supported by heavy-duty self-aligning CC bearings able to take up misalignment due to pontoon resilience and hostile forces. They are also used on the main thruster input and propeller drive shafts.

SKF. The exact bearing—and more

SKF

UK Engineering 2

Doubts about the criteria

Government programmes

PETER BRUCE

THE WORLD'S only travelling automated factory is making its way around Britain today, evraging the benefits of computer aided design and manufacture to a group of wary industrialists in much the same way as Colonial Office men in safari hats would trump Africa extolling the virtues of contour ploughing more than 100 years ago.

The mobile CAD/CAM demonstration unit is the creation of the Department of Trade and Industry which, with more than 100 schemes designed to encourage the creation of businesses and the adaptation of manufacturing technology in manufacturing under its belt, seems to have an endless supply of new ideas, and not a little money, with which to promote its message. A Parliamentary select committee recently called the schemes a "muddled complexity" and recommended they be streamlined and made more sensible to the people they were designed to assist. It is impossible to say whether this was because the MPs themselves did not understand the schemes, but there is little doubt that a great deal of money has been paid out to those smart enough to make use of the system.

Nowhere is this more true than in the 15 schemes grouped under the Support For Innovation programme, one close to the heart of the Prime Minister and the Minister for Information Technology, Mr Kenneth Baker.

Broadly, the schemes pay up to a third of the costs of project assessment, sometimes a third of the cost of development costs and the DTI will at times even buy the first item off the production line to show off (at its own expense) to a few potential customers. Take the Microelectronics Application Project, designed to encourage manufacturers and others simply to use micro-electronics. By the end of last year, £85m had been spent since 1978.

There is the Microelectronics Industry Support Programme, more innovative than its counterpart in that it encourages research and development and helps pay for plant, buildings, product launch and marketing — £55m spent since 1978.

The Fibre Optics and Opto Electronics Scheme, was set up in December 1982 and close to £40m has been spent on the design, development and launching of new or improved products or processes "in relation to optical fibres, optoelectronics, optical sensors and instruments for such activities," as the guide book says. There is more.

Whether £70m has been allocated to applicants under the Computer Aided Design, Computer Aided Manufacture the various schemes have

(CAD/CAM) scheme, the Computer Aided Design, Manufacture and Test (Cadmat) scheme, the Computer Aided Design and Test Equipment (Cadtes) scheme, the Flexible Manufacturing Scheme, the Industrial Robots Scheme, the Biotechnology in Industry Scheme, the Databases Scheme, the Software Products Scheme and the Telecoms Products Scheme.

If it is easy to poke fun at the array of help available, it is more difficult to judge just how effective they are. DTI officials insist, however, that the manufacturers they have worked with have strengthened either their product ranges or productivity.

It is probably because success is so hard to define, and because it tended to spring up on a

rather ad hoc basis in response to pressure from industry, rather than Whitehall that they are criticised. In addition to the select committee on trade and industry labelling them "muddled," at least two other questions have been raised by sceptics.

Should the Government be intervening in industry, be in the business of supporting new ventures?

Is the Government not wasting its money on supporting adventurers too weak to have any international impact when funds could be invested in building up substantial new strengths in production of new technology?

The possibility that the wide range of schemes might be verging on the unwieldy is now being acknowledged by the Government. Mr David Trippier, Minister in charge of small businesses, signalled recently that at least those schemes affecting small businesses will be overhauled and the expectation is that some will be dropped and obvious candidates merged.

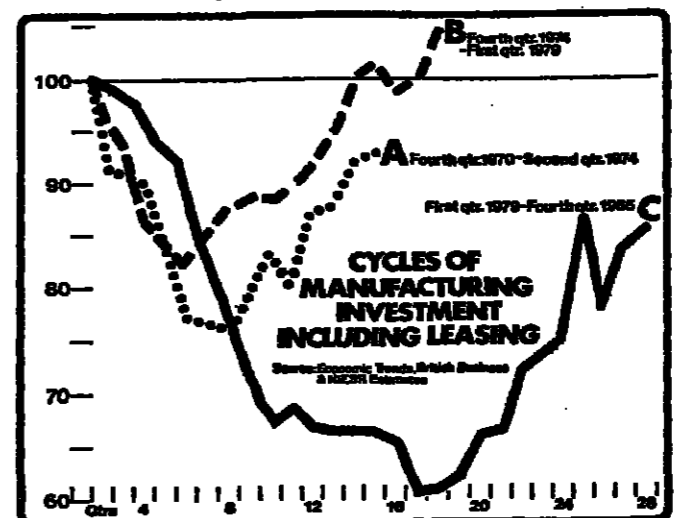
Some SFI schemes have already been allowed to run their course and are not being merged and it is likely that the industrial robots and FMS schemes will be merged. DTI officials defend Government's part in the schemes by arguing that its role is to make people "aware of what they are missing." This seems especially true of the CAD/CAM schemes—the Government has made it clear before that it was

seriously concerned at the poor use made of the technology in UK industry, while European, Japanese and U.S. competitors built up experience with it.

The object, it appears, is to get in and get out again as quickly as possible. "Once you've got 3 per cent to 10 per cent of an industry exposed to the state of the art technology then it up to the rest to follow (on their own account)," says one official.

Officials also argue that the projects they generally become involved with are "high risk" and that in the absence of private sector financing no progress would be made at all if the Government did not give new ideas a nudge in the right direction.

The second criticism is some-



what contentious, and centres on the DTI's apparent lack of concern that while money is being spent encouraging development in new technology, the large number of recipients means the cash resource is dissipated.

Some £12m has been spent, for instance, through the Industrial Robots Scheme, designed to encourage the development and application of robots, yet Britain remains an insignificant force in the international robotics market. Much of the money has gone to what one U.K. robot builder refers to as "inventors" who have little prospect of matching the major producers in the market.

The Government and many of the private sector consultants attached to the SFI schemes, counter this criticism by arguing that it is "more important for Britain to use new technology than to make it."

Probably the most revealing example of this attitude occurred during the life of the Small Engineering Firms Support Scheme (SEFS), which expired after two years at the end of 1983. The idea was to encourage small engineering shops to buy computer-controlled machine tools.

But if UK machine tool builders thought they were about to be swamped with orders, with the Government paying a third of the selling price, they were sorely mistaken. The British managed to secure just over half of the orders made through SEFS, with most of the machines imported with cash from the old Department of Industry coming from Japan,

And the Japanese were not selling specialist machinery were won in direct competition with UK producers.

The problem facing those critical of the Government's attempts to prod industry in one direction or another is that failure is almost as difficult to measure as success. Essentially, the arguments for and against the style of intervention, and certainly the goals of it, are political not commercial. This is not the case, however, in those areas where the Government has become involved in breaking up, or rationalising established industrial structures.

Much of the Government's cash for restructuring has gone into the steel industry, which is hardly surprising since the state-owned British Steel Corporation, because of its wide product range, has been down into most of the rationalisation projects in steel-related sectors. Money has been channelled through the BSC and by the DTI through its (ES4m) Estrate Sector Steel Scheme, which expired at the end of last month.

Probably the most conspicuous success in reducing capacity in the steel industry was the creation in February 1981 of Allied Steel and Wire, a combination of the wire rod interests of the BSC and Quest. Keen and Nettiefold, optimistically designated Phoenix One. AS & W, born out of two loss-making operations, is now understood to be trading at a profit.

The Jury is still out on Phoenix Three, the merged press forging businesses of the BSC and Johnson and Fry, Brown which, as Sheffield Forgemasters had to close one works, with the loss of 100 jobs, early last year. By December last year, the group announced a pre-tax loss of £18m in the 65 weeks to July 1983, while the board admitted it was worse than expected. By last March, losses were continuing.

The wholly private sector restructuring programmes probably have proved an entirely more agreeable exercise for the DTI, if only because the cash remains on it have been relatively modest and the fact that responsibility for success or failure lies elsewhere.

A number of private sector steel producers and smelters have been encouraged to close because of Government aid. Most recently, F. H. Lloyd and the Brockhouse group closed rolling mills with Government help and their production quota, dictated by the European Commission in Brussels, was transferred to Sheerness Steel in south east England. Without question, Sheerness' ability to compete on the export markets has been strengthened by the deal.

But a programme designed by Lazard, the merchant bankers, to cut capacity in the general steel castings industry, which generated a lot of enthusiasm not only from Government, in 1982, has not lived up to its early promise.

This announcement appears as a matter of record only.

March 1984



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SURVIVE AND SUCCEED

The Engineering Council says that raising the level of technological inquiry into companies by investors and managers will stimulate industry's ability to exploit its engineering resources to compete in world markets.

— Quote from "APPRAISING THE TECHNICAL AND COMMERCIAL ASPECTS OF A MANUFACTURING COMPANY"

The Engineering Council has given its support to the promotion of technical reviews which seek to ensure that full weight is given to technical matters in a company's planning process.

— Quote from "TECHNICAL REVIEWS FOR MANUFACTURING, PROCESS AND CONSTRUCTION COMPANIES"

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THE ENGINEERING COUNCIL

Analysts confident of profits recovery

ENGINEERING'S importance to the UK economy may have diminished significantly since 1979, but engineering shares still provide full time employment in the City for some of the largest research teams in the stockbroking community. Most had their institutional salesmen standing ready by their telephones last year for the slightest sign that capital investment flows were taking over from the boom in consumer spending—and when that sign arrived first at the end of the third quarter, then engineering stocks began to move.

The gathering evidence of the first really sustained rise in volume demand for five years brought a sparkle to countless shares in the mechanical engineering and metal forming sectors. For the most part, they had been left to languish on the sidelines earlier in the year, while investors rushed for recovery situations among the motors and distributors.

In the fourth quarter, companies like Bestobell, John Brown, J. H. Fenner, Hawker Siddeley and Mitchell Cotts managed a share performance relative to the rest of the market which at least restored a modicum of respectability to their relative underperformance for the year as a whole.

The first two months of 1984, though, saw the biggest gains in all across a wide spectrum of the engineering market. Reviewing the drastically altered cost structures of many companies, the trends in capital spending and the boost to export prospects from a weaker pound, the brokers' analysts hastily upgraded their earnings forecasts. This knocked a few points off the earnings multiple price tag of virtually every company which had struggled intact through the recession.

Above all, the analysts concluded that the profits recovery

would persist through into 1985, leaving investors something still to go for even at this stage of the cycle.

Not surprisingly, perhaps, those shares most severely depressed by the recession now enjoyed the most robust rebounds. Putting this in perspective needs some appreciation of the premium awarded by the market to the top-quality engineering groups over the past few years.

Engineering shares
DUNCAN CAMPBELL-SMITH

The impact of the industry's collapse in 1980 was brutal. When it is remembered that a leading name like GKN had the City analysts downgrading their profit forecasts from over £100m for 1980 to nil or worse within the space of months, the market's retreat into quality can be more readily understood.

The result, anyway, was a significant p/e multiple premium for groups such as Hawker Siddeley, Matthew Hall and Smiths Industries. The whittling away of this premium in January/February was the surest symptom of investors' new confidence in the sector.

The engineering team at broker Capel has kept a weather eye on support for the more cyclical stocks without allowing itself to be deflected from the premier names which still carry the main weight of their recommendations. The team published a massively researched tome at the start of the year to present "Twelve Core Holdings" in engineering and motors.

Analyst Ewan Fraser readily admits that the performance of the 12 has perhaps been a little disappointing over the short term, just about keeping level with the general market as a

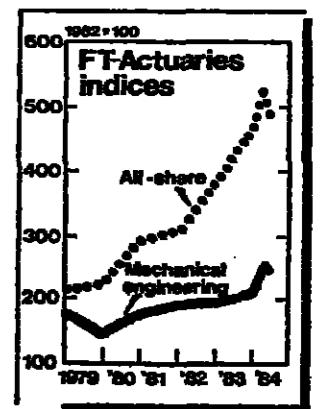
group. But this is only another reflection of the market's realignment and alters Capel's main conclusions not at all.

"It is just that people's horizons have shifted to include some of the cyclical stocks," says Fraser. "People have seen how well you can do if you get the recovery right—but you have to have been very selective."

In the second quarter of 1984, moreover, the task of picking out recovery stocks has become a good deal more difficult. The 2-4 per cent relative overperformance of the sub-groups within the engineering sector which was a feature of the first three months has given way to a very much more mixed showing. The metals and metal forming shares, for example, have fallen nearly 10 per cent behind the rest of the market.

The new weakness—which has developed in the face of reported results for 1983 showing a 70 per cent or so jump in profitability, more than fulfilling City expectations—is of course due in part to profit-taking. Shares like Birmid Quatrel and IT soared in the opening quarter. Investors impressed by the achievements of their managements but worried still by the poor quality of their business environments can hardly be blamed for wrapping up their capital gains.

But there are other, more fundamental grounds for the recent re-assessment of investors' judgement already given some thing to do, it seems, with the volatility of the engineers. "People are starting to look into next year," explains Lee Morton of the engineering team at brokers Hoare Govett. "They see the top end of the cycle for some of these boys and they are taking their profits."



coming in the wake of a general switch in the City to p/e multiples based on actual tax rates rather than notional, have also left many of the engineers looking slightly more expensive.

And the miners' strike has generally dampened sentiment, even if it has yet to have much of a perceptible effect on the profits outlook of more than a few well identified mining industry suppliers like Dobson Park.

Above all, the mixed performance of the engineering shares reflects one of the most difficult investment judgments required since the 1960s. As Lee Morton puts it: "The big question mark in most fund managers' minds is almost impossible to quantify, but it hinges on one critical point: these companies have in almost every case drastically stumped over the cost base—but precisely how much have they reduced their cyclical vulnerability as a result?"

The answer, increasingly appears to be: the more they have switched to higher value added goods and the less they still depend on simple volume demand, the better their prospects are.

Other investment criteria obviously remain at hand, notably the shape of a company's balance sheet. Many of the quality names, like Hawker Siddeley, now have net cash positions. But the sheer weight of the industry's reorganisation over the last four years seems bound to push the "value added" touchstone increasingly to the fore.

UK Engineering 3

Waiting for stronger demand

BY NOW, given the strength of this economic recovery, the fork lift truck market in the UK should be well out of the record depths to which it sunk in 1981. Sadly for the 20 or so lift truck manufacturers who compete for a share of the UK market, demand is now running at just over 10 per cent above 1981 levels.

Even if demand strengthens, it seems unlikely, say industry analysts, that more than 9,000 lift trucks will be sold in the UK this year—well below the 11,800 delivered in 1980 and the 15,294 sold in 1979.

Nevertheless, manufacturers believe that the British market is now growing faster than its two major European counterparts—West Germany and France.

"The UK is at the leading edge of the recovery," says Mr Ken Orr, sales manager for Caterpillar lift trucks in Europe, Africa and Middle East.

"There is a strength in the one- to three-tonne lift truck market that wasn't there a year ago and a strength in the UK which has not been evident in the rest of Europe," he says.

Mr Orr's enthusiasm for the UK is a telling comment on just how badly the rest of the European market is performing. It is difficult, still, to find a manufacturer selling in the UK who is achieving list prices.

"People are desperate for business," said a Yale Materials Handling official, confirming that discounting is still rife in Britain. Other manufacturers talk of deals being taken away from them at discounts of up to 30 per cent off list price, although average discounts are now thought to be down to around 15 per cent.

Faced with competition even at that level, says Mr Mike Hughes, managing director of one of the most successful new importers into Britain, Still, of West Germany, "you just have



Manufacturers must introduce new models to compete, though fierce discounting has been found necessary to prop up falling sales.

to walk away from it." The problem, says Mr Hughes, is that the industry as a whole has misjudged the severity of the recession and its effect on the lift truck market. "It's gone down and it has stayed down," he says, "everybody's ended up with egg on their faces."

For those UK manufacturers brave enough, or desperate enough, to venture abroad the problems are even worse. Competition in export markets outside the EEC, says one Lancashire producer, is "simply unbelievable." In one Middle East market, lift trucks are being sold for nearly 40 per cent off their discounted price in the UK.

Fork lift trucks

PETER BRUCE

But a second factor has combined with insufficient rationalisation to dog manufacturers now that demand is picking up. Customers, says one Lancashire executive, Mr David Phillips, are squeezing up to two years more life out of their trucks and the second-hand and rebuild markets are very strong in the UK.

Phillips believes, however, that the trucks sold during the boom years between 1976 and 1979 must now be close to exhaustion and will need replacing soon.

One of the difficulties facing manufacturers in the recession, during which all attempts to rationalise the industry to rationalise on facilities and models failed, has been the

need to constantly bring new models into production, for fear of losing ground to competitors, and to spread their range of products as wide as possible in the hope of netting some business.

Lancaster, for example, is now making strenuous efforts to enter the small, volume trucks business that might effectively negate its traditional role as a supplier of prestige heavy trucks and container handlers.

Along with many other producers in the UK, Lancaster-Bost has had little option. Most manufacturers have all but abandoned direct sales since the recession began, and now use distributors whose cash flow requirements dictate a wider range of products if they are to be kept loyal. This need is even more acute in export markets.

One effect of the introduction of new models, by almost every indigenous manufacturer in the past year, has been to blunt the penetration of the market by Japanese importers.

The share now taken by Toyota, Komatsu, Datsun, Mitsubishi and other Japanese manufacturers is reckoned by analysts to have steadied at around 30 per cent, a slight fall from the overall 35 per cent taken in 1981.

Much of the fall is accounted for by a fall in share of the small truck market, below three tonnes lifting capacity, where the Japanese share rose from 25 per cent in 1978 to 49 per cent in 1981.

The Japanese producers have also undertaken voluntary import restraints and falling sales in Japan have inhibited in some cases, their ability to match the discounting by European importers in the UK.

Education and training

ALAN PIKE

EDUCATION AND training requirements in engineering are going through a period of most radical change as new technologies advance through the industry.

The loss of unskilled and semi-skilled jobs has been heavy during the recession, creating a pattern which is set to continue. In the coming years engineering employers will be looking for craftsmen with flexible skills, a growing number of technicians and a fair share of good graduates.

Current attitudes towards education and training do not guarantee that these requirements will be met and the Engineering Council, in one of the first major initiatives since its inception, is calling upon the Government to divert £200m a year for five years to provide the training of engineers.

The council believes there is a "major national problem" in the shortage of training places for chartered engineers, technician engineers and engineering technicians arising from economic pressures on training. Large companies, it concludes, train only for their own immediate requirements, and smaller ones do not have the resources to make up the shortfall.

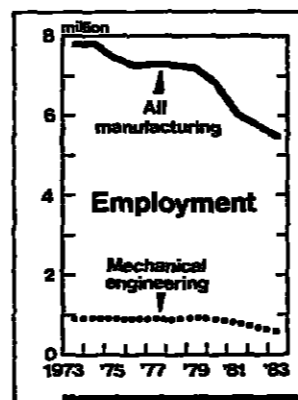
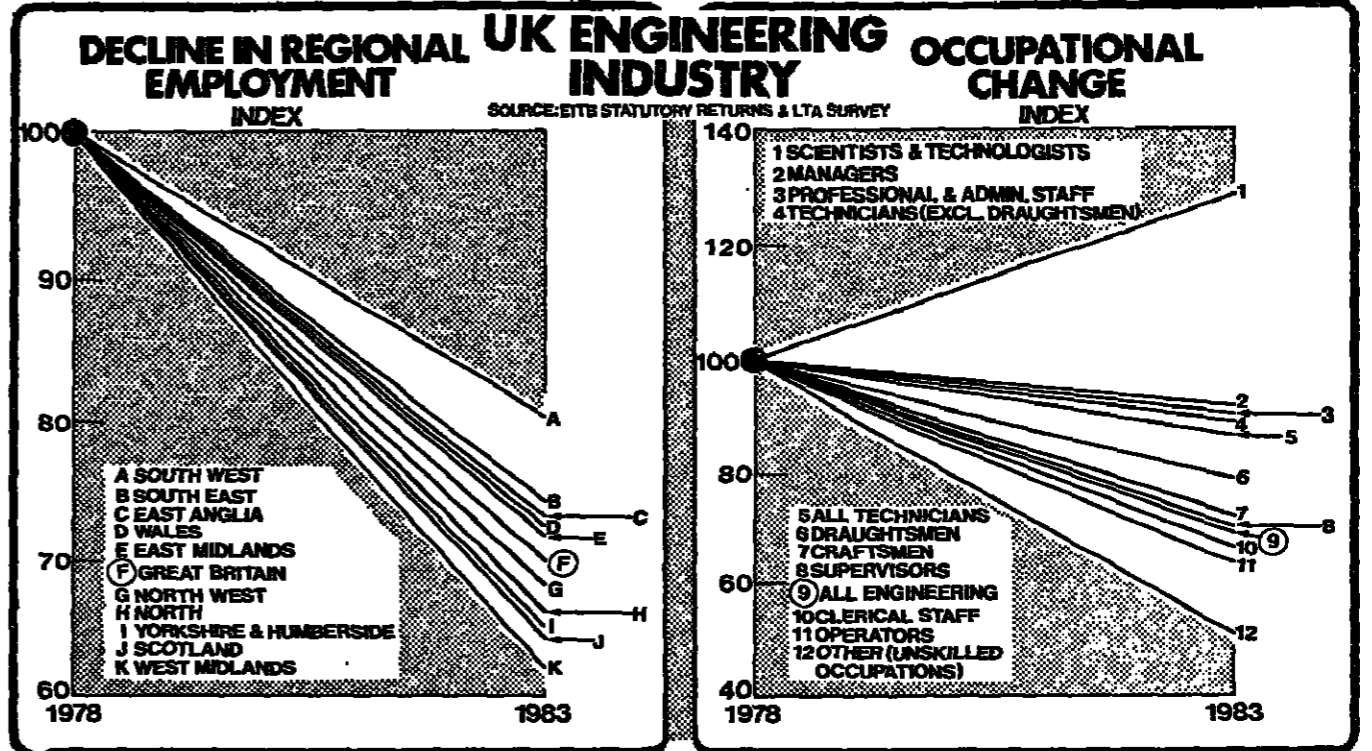
Tax

In proposals which it has been conducting consultations during the spring, the council calls on the Government to provide extra funds for engineering training. It believes the money could come from the EEC, the establishment of a national training tax on employers similar to the French system, or the provision of funds reallocated or unused from other training schemes.

The council is also arguing that there should be a 10 per cent swing from arts-based to science-based places in higher education, with most of the extra science places going to engineering students. It wants a five-year long earmarking of funds as a pump-priming exercise to help engineering departments, and a new secondment scheme to enable 500 academic staff a year to spend up to 12 months in industry.

"The education of qualified

Future search for flexible skills



standards comparable to the best in the world."

The Engineering Council, set up by the Government in response to the 1980 Finniston report "Engineering Our Future," last year took over responsibility for registration of chartered engineers and awarding the CEng title from the Council of Engineering Institutions. All 53 professional institutions involved in the CEng registration arrangements have joined the new Engineering Council system.

Plans are being made by the council to hold a first-ever national assembly of UK engineers next year. The assembly is intended to become an annual event; and 300,000 registered professional engineers and engineering technicians will be able to elect representatives to it from within about 20 local constituencies.

During the present recession recruitment of apprentices in engineering has fallen to the lowest levels since records began during the recession. This year about 7,500 new apprentices entered the industry (including foundries) — 1,000 fewer than last year and 15,000 below the annual mid-1970s in-

take. The rate of redundancies among apprentices during training is slowing down, but during 1984 has still been running at about 60 a month.

By 1986-87 the supply of newly trained craftsmen to the engineering industry will have fallen to only half its 1979 level. In spite of changing employment patterns, and effort by the Manpower Services Commission to encourage more adult retraining the Engineering Industry Training Board is convinced that skill shortages will occur in the future.

Shortages

The board says there are already many indications of shortages of high-level skills, particularly software and electronic engineers, while some companies are experiencing difficulties in recruiting good-quality technicians and maintenance staff with skills in electronics.

Controversy has recently surrounded the efforts of the statutory EITB to tackle these problems. A group of leading engineering companies have accused the board of being preoccupied with training in declining areas of engineering, and has been campaigning for its abolition.

The Government has, however, decided that the board should survive, and the EITB has launched a programme to regain the confidence of the industry. This will include concentrating on the need for high-quality employees in high technology areas, and phasing out long-term training grants.

Engineering employers will have an increasing need for good quality recruits in the coming years, and an obvious source of such employees is among women. The industry's record for attracting women graduates is not a good one, and efforts are being made to improve the position this year with the WISE 84 (Women Into Science and Engineering) campaign being run by the Engineering Council and the Equal Opportunities Commission.

A series of initiatives is planned to try to convince successful women graduates and school leavers that the UK engineering industry is no longer—if it ever was—a place where all jobs are heavy, dirty and dull.

STAVELEY INDUSTRIES TODAY

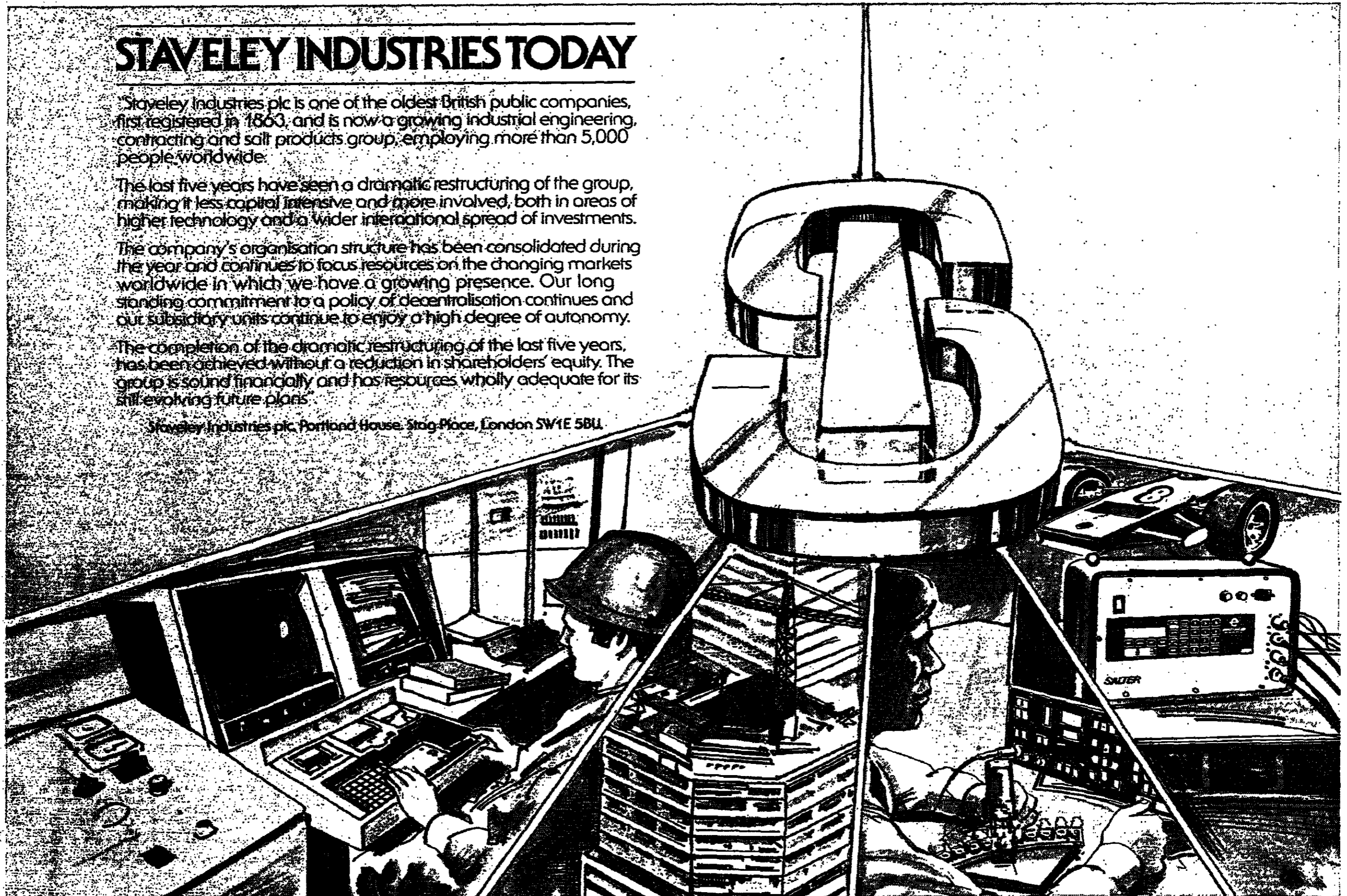
Staveley Industries plc is one of the oldest British public companies, first registered in 1863, and is now a growing industrial engineering, contracting and sale products group, employing more than 5,000 people worldwide.

The last five years have seen a dramatic restructuring of the group, making it less capital intensive and more involved, both in areas of higher technology and a wider international spread of investments.

The company's organisation structure has been consolidated during the year and continues to focus resources on the changing markets worldwide in which we have a growing presence. Our long standing commitment to a policy of decentralisation continues and our subsidiary units continue to enjoy a high degree of autonomy.

The completion of the dramatic restructuring of the last five years, has been achieved without a reduction in shareholders' equity. The group is sound financially and has resources wholly adequate for its still evolving future plans.

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UK Engineering 4

Steady climb in new orders

Machine tools

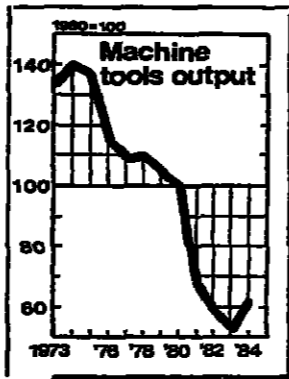
PETER BRUCE

BY THE beginning of 1983 orders taken by the British machine tools industry...

Orders for the first three months of 1984 were 19 per cent higher than the last quarter of 1983...

It is also clear that there are still a number of steady hands about ready to come to the rescue of ailing British machine tool companies...

Penetration of the UK market by Japanese producers, particularly in computer numerically controlled (CNC) machining centres and lathes...



Imports rose overall from 4 per cent in 1976 to 13 per cent in 1982. The Japanese machining centre share of imports, however, rose from 2 per cent to 70 per cent at the same time...

plants and, consequently, their ability to export competitively. The UK lathe market has softened considerably anyway...

Agreement among UK producers to ask for an extension into 1985 of that agreement has angered machine tool importers in Britain...

A number of UK manufacturers have also made a dent in the strength of the importers by concluding licensing agreements with Japanese manufacturers...

In June last year DeVlieg, a U.S. producer, agreed to make Okuma's small machining centres in the UK...



New Perkins-powered Massey-Ferguson MF 689 tractor, the first six-cylinder tractor in the company's 690 series range, with two or four-wheel drive.

Progress by Ford

THE future of Ford's tractor operations has been a frequent subject of speculation in recent years. Would it be sold to Benz of West Germany...

Mr Tiplady says. "Today, the figure is 45.1, even though the tractors are more complicated. The engine figures have gone up from 65 per cent to 95.2..."

The first reward for these efforts came in 1979 when Ford decided to return to Basildon from a sister plant at Antwerp...

Despite the rumours, and the very difficult market conditions, Ford has worked away quietly, turning its Basildon tractor and engine plant in Britain into a highly competitive operation.

Mr Geoff Tiplady, director of tractor operations for Ford in Britain, says the company's investments at Basildon have averaged \$10m a year since 1977...

Pick-up after the redundancies

Process plant

ANDREW TAYLOR

GENERALLY overcast, becoming a little brighter in some areas but with few sunny periods. That is an apt, if somewhat familiar, description of the outlook for Britain's process plant industry...

It covers a multitude of industries from food and drink manufacture to winning oil from the North Sea. However, despite its wide spread of uses, the sector has taken a heavy battering during the recession...

There have been substantial redundancies in the process plant industry during the past five years. A number of manufacturers have been forced out of business. The most recent and celebrated company to be overthrown was Carter Nettle...

Nonetheless, there have been one or two signs recently that the recovery has taken a few steps forward. It is starting to spill into parts of the process plant industry.

Food and drink manufacturers which have been at the sharp end of the boom in consumer spending—even if a lower proportion of household budgets are spent on eating and drinking—have been modernising and rationalising production by investing in new plant and machinery.

Harry Hornsby, director general of the Process Plant Association, says: "There is a general feeling that things are taking a slight turn for the better in one or two areas. Food and drink is one; offshore oil exploration is another."

Tax concessions to boost North Sea oil exploration, announced in the 1983 Budget, are now likely to work their way through to process plant manufacturers making platforms and other equipment for rig operators.

"As exploration programmes take shape process plant manufacturers should start to benefit although the size and pattern of ordering is still not entirely clear," Mr Hornsby says.

Tractor output stronger after consolidation

Agricultural equipment

IAN RODGER

BRITAIN'S important agricultural equipment industry has suffered a 30 per cent fall in output in the past four years and is poised for further retrenchment...

The agricultural equipment industry in Britain is mainly about tractors. The country is one of the largest producers of these machines...

As recently as three years ago many people feared that Britain's tractor industry was deteriorating. Two of the four multinational companies that manufacture in Britain, Massey-Ferguson and International Harvester, were on the verge of bankruptcy...

The industry was too fragmented, it was argued. Consolidation was the only way to retain its competitiveness. Today, that argument is seldom, if ever, heard.

Would Massey-Ferguson, for example, have moved production to Coventry when it closed its Detroit plant two years ago? Would Ford have shifted output from Belgium and Brazil to Basildon in Essex?

Also, the fact that a large proportion of UK tractor exports go outside the European Community should help the industry weather the next phase of retrenchment...

Demand for tractors has been depressed worldwide for many years and is likely to remain so. Thanks to food surpluses in Western Europe and North America and lack of finance for agricultural equipment purchases...

The UK industry has been particularly hard hit because its factories turn out tractors in the low to middle power range (30 to 90 horsepower). These machines sell best in the developing countries but are slowly losing ground to more powerful machines in North America and Western Europe.

The electrically generating industry offers currently little comfort to process plant manufacturers. These are still awaiting the outcome of the Sizewell B public inquiry, the findings of which are expected to set the tone for ordering trends for the next decade.

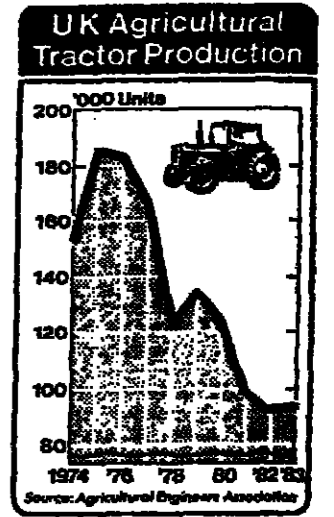
Mr Ian Macleay, secretary of the process plant economic development committee of the National Economic Development Office, says that restrictions of Sizewell would not only provide much needed work for the sector but was also expected to provide a guide to which system—AGR or FWR—AGR planned to adopt for its nuclear power stations programme.

Estimates of electricity consumption into the 1980s have been steadily reduced. As a result, the pace of new orders for power stations is likely to slow as expenditure on process plant by the electricity supply industry is thought to have peaked last year.

Steel manufacture also provides little fertile ground for optimism among process plant producers hoping to win new orders. While the rise in orders in domestic sectors such as nuclear processing is encouraging, the outlook for export markets remains cloudy.

Competition for orders is intense while developing nations beset by massive debt problems are facing with the necessity of curtailing substantial capital investment programmes.

"We can do more to help ourselves in export markets," says Ian Macleay. "We have built up a considerable expertise thanks to North Sea oil, but too often it is contractors rather than process plant manufacturers who seek the lead position in winning new orders."



its Bradford engine plant, its London office and its Long Sandall distribution centre. The workforce has fallen from 6,500 to 2,000 since 1978 and output is down to 65 tractors a day from 130 a day before the recession.

J. I. Case has maintained its two factories at Huddersfield and Leigh, Lancs., but has cut its workforce from 4,000 to 3,000. Output tumbled from 20,000 before the recession to 13,000 in 1983 and recovered to 15,500 last year. The company has just announced that it will stop engine production at Huddersfield over the next three years but replace the workload with other components.

Surplus

Despite all the contraction, agricultural equipment is one of the few important sectors of the British engineering industry that is still producing a substantial trade surplus. Last year, output was worth £1.2bn, and 63 per cent of it was exported. Exports were slightly less than £700m, leaving a surplus of £160m.

It is also a sector that is beginning to produce profits again. IH and M-F in Britain are both near the break-even point and Case says it is on target to break even this year. Ford does not disclose its financial results, but it is thought to be in profit.

Other agricultural equipment companies showing some recovery since the recession include Ransomes Sims and Jeffries, the tillage and spraying equipment makers, which nearly tripled its profits to £3.22m pre-tax in 1983. Howard Machinery, which makes cultivation equipment, has been taking heavy extraordinary charges. It again made a small profit in the year to October 31 1983 at the pre-tax level, and cut its attributable loss from £2.6m to £1.2m.

The producers recognise, however, that the outlook for demand in the near future is not bright. Cuts in EEC grain prices and dairy production quotas announced in April have already had a dramatic effect on farmers' agricultural equipment purchases. Tractor sales in Britain were 29 per cent lower in May than in the same month of 1983 and in West Germany were down 30 per cent in the first four months of the year.

Mr Geoff Tiplady, executive director of UK tractor operations for Ford and president of the Agricultural Engineers Association, warned in a speech in April that "it is virtually certain that further retrenchment will occur in some sectors before we can look forward to overall expansion in our industry."

Baker Perkins advertisement featuring logos, stylized graphics of a person's face, and text: 'Engineering—the total concept. The Baker Perkins group offer a total engineering service to a wide range of customers in the bakery, biscuit, chocolate, confectionery, printing, chemical, packaging and other industries.'

GKN advertisement with a world map graphic and text: 'GKN makes technology work internationally. Developed by GKN engineers in the UK, a specialised computer aided engineering system goes into action—internationally. With sales of £2,000 million in world markets, GKN's advanced technology meets the global needs of its customers.'

Advertisement box with text: 'Who is growing in engineering?' featuring a stylized graphic of a person's head and shoulders.

A long-term battle for survival

Foundries

ARTHUR DAVY

THE WARNING that Britain's troubled foundries face "a further decline of considerable magnitude over the next five to ten years," was sounded some months ago by the economic development committee for the industry, upon which government, trade unions and management are represented.

In the words of one leading industry expert: "The latest figures merely confirm the trends, which are bloody terrifying." He adds: "Inevitably there will be some wiggling about around the trend line. Of course, there will be those who take encouragement from any upward wiggle—but such short-term changes do not affect the trend."

A similarly gloomy view is taken by Mr Stan Heginbotham, president of the British Foundry Association, which claims to represent the bulk of the ironfounders. He acknowledges some upturn in demand but complains that it tends to be confined to particular sectors and shows no sign of being long term. "There is nothing in depth. No real change in the downward trend."

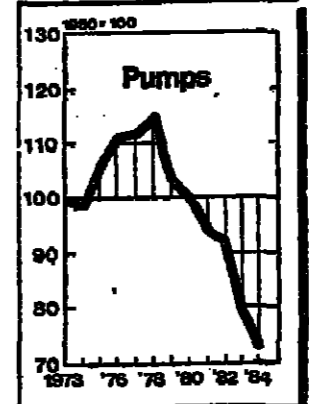
Initiative
Those companies which are prospering are tending to do so at the expense of their competitors: the survivors are picking up the business of the failures.

Little Nuddy, in an important but unpublished initiative, is sounding out all sectors of the industry to see how companies might make common cause either to reduce capacity or introduce new technology and become competitive.

rather than merely seeking volume, he says. Indeed, a feature of the shakeout brought by the depth and duration of the latest recession has been the greater professionalism of the foundries. New management has been brought in. The surgery has been clinical. Foundries have become almost too important to be left to the foundrymen.

utilisation and international competitiveness. On demand, Little Nuddy forecasts that output, which halved in the period 1975 to 1982, is likely to decline by a further 25 per cent by 1985 to 1990. The continued displacement of casting for technical reasons is seen as the principal cause of the fall in demand—a trend that is under way regardless of any recovery in UK activity which might feed back into the customer industries.

dries operating at fairly low working (tended to be those with fewer than 50 employees or those concentrating sales upon industries such as metal manufacture, machine tools, mixing machinery, cars, commercial vehicles, components and shipbuilding.)



Still an excess of capacity

Pumps
IAN RODGER

A GLANCE at the adjacent chart suggests that the British pump business has not had a very happy time in recent years.

However, there are still 169 pump manufacturers in the country and the industry is still a significant contributor to the balance of trade. Its total turnover in 1983 was just under £500m and exports of £200m were 253m greater than imports.

There are about 17 industries that are major consumers of pumps, ranging from power plant and chemicals at the heavy end to precise medical equipment at the light end. Most are mature markets. A few, such as the marine market, have suffered major decline in recent years while others, such as the offshore oil industry, have provided some growth.

workforce from 5,000 to 3,000. Mr Alan Shell, general manager of industrial and marine sales, says volume is down about a third since 1979. Mr Tony Wright, managing director of Mather and Platt's rotating machinery division, says: "Something will have to happen fairly soon. There could be a shakeout in the next couple of years." Meanwhile, some pump-makers have bolstered their sales by offering turnkey packages of mechanical equipment for water treatment plants or fire fighting systems. The SPP Group, best known for its Godiva fire fighting pumps, is also trying to develop a consulting business measuring the efficiency of pumping installations. Mather and Platt has substantially built up its export sales, which now account for 70 per cent of its total sales.

Pump producers have been looking for some recovery in demand in recent months but there are mixed reports on whether or not it is happening. Mr Shell of Weir says order intake so far this year is "nothing significant" over 1983. Demand is strongest for small pumps used in domestic central heating systems and cooling systems for computers.

Mr Wright says Mather and Platt's order book has been "pretty solid" this year. The traditional big buyers in the UK, the electricity authorities, the National Coal Board and the British Steel Corporation, are still not buying new equipment, he says, and it is only the North Sea business that keeps home business steady. Sulzer Brothers, the UK subsidiary of the Swiss engineering group, reports a much stronger trend. A spokesman said the company took in as much new business in the first quarter of this year as in the whole of 1983. This included a £1.5m contract for ten pumps for the Bray B platform in the North Sea and a £1m contract for the Anglian Water Authority.

Though the pumps industry lacks glamour, there are still some knowledgeable people willing to invest in it. For example, Sulzer invested £1m in a new factory at Leeds two years ago. In what is perhaps a more daring move, the management group at SPP bought their company from Booker McConnell by its management group last October for £3.5m. "Being financially committed concentrates the mind wonderfully on achieving better productivity," Mr Bob Moore, the SPP managing director says.

PROFILE: A. L. DUNN

Doubled turnover and full orders

NOT ALL is gloom in the UK foundry industry. Take the case of A. L. Dunn of Nuneaton which specialises in making aluminium castings for the motor industry. Turnover has more than doubled since 1979 (to £16.5m) and the company, which claims to be the largest aluminium foundry in Britain, exports nearly a quarter of its output.

Shifts
Dunn's three die casting shops are working three shifts a day and a fourth shop is under construction. The tool room, which makes tools and dies for customers' castings, has an 18-month order book. Dunn is also an exception to the rule about what a big group should do when it takes over a family business. When Central and Sherwood, the small and now troubled conglomerate

bought Dunn in 1972, it decided to leave the foundry in charge of the business. According to business school wisdom, he should then have put his new wealth into a hobby and lost interest in the business. But Mr Kerry Compton, who is still chairman of Dunn, has kept Dunn competitive—except, that is, for a period when C and S sent him up to Sheffield to sort out a sister company.

Mr Compton is a foundryman like his father before him, but with a difference: because his father sent him off to learn accountancy before letting him join the business. That has given him a sensitivity to finance and marketing that is often lacking in other established foundry companies. Take, for example, his approach to making engine head castings in large volumes when the company won a contract in 1979 to supply Ford's new engine plant at Bridgend in Wales.

Typically, foundries produce them on carousels of eight or more dies. Because the tolerances are tight, stoppages for adjustment and repair are fairly frequent.

Precise
In a similar move that affects both quality and economy, the company is installing a 265,000 speedreaper so that it can re-melt its own scrap to precise specification rather than being at the mercy of the secondary smelter operators.

foam polystyrene method, which produces an extremely smooth finish. The aim is to be able to provide the customer with some technical assistance as well as a product.

IR.
Dunn went through a bad patch in the late 1970s while Mr Compton was away and was in poor shape when the recession struck in 1980. It closed a foundry in Coventry in 1981 when its work for the Talbot contract in Iran disappeared and suffered losses until this year. "However good you think you are, you have to keep on trying to improve," he says.

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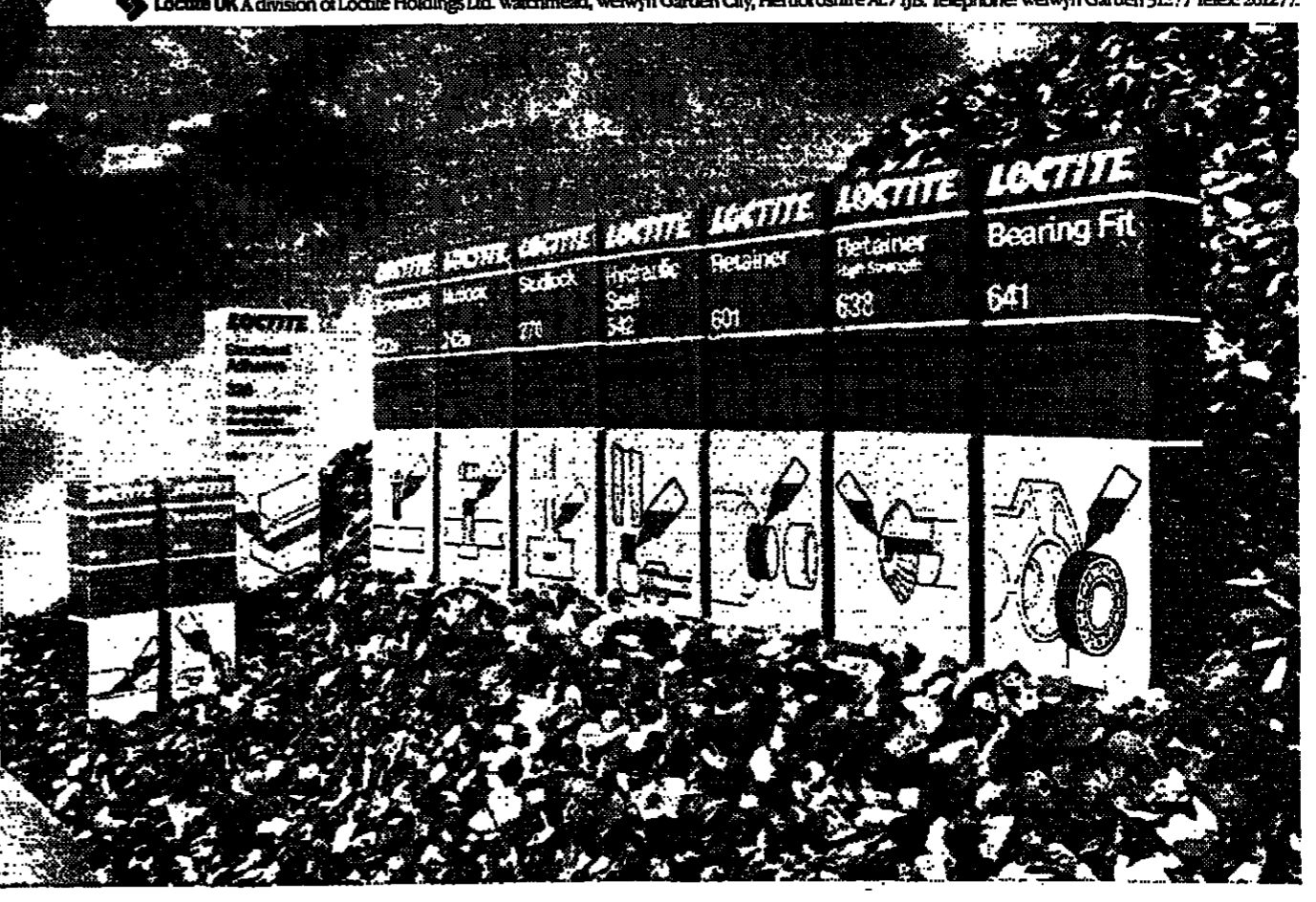
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UK Engineering 6

Best prospects for growth lie overseas

Mining equipment

PETER BRUCE

IF BRITAIN'S mining equipment manufacturers ever needed reminding that their best prospects for growth lie overseas, at least in the medium term, then the coal miner's strike should have finally driven the point home. Anderson Strathclyde, Dobson Park and Dowty, the three biggest UK producers of subsurface equipment, are all facing substantial cuts in income this year because of the NUM strike.

Theoretically, the British mining equipment industry is one of the most powerful in the West. It is almost exclusively bound to the coal industry, and the National Coal Board's mines have provided manufacturers with a tested market for equipment free of foreign competition except in rare cases where importers have been able to offer better specifications or specialised machinery.

The UK's strengths — with Anderson Strathclyde in coal shearing, Dowty and Dobson Park in hydraulic roof supports, and Dowty, Dobson Park, and MS International (formerly Mining Supplies) in conveying equipment and Hawker Siddeley in flameproof transformers, switchgear and subsurface transport control systems — have also been complimented by important innovations in coal mining made by the NCB.

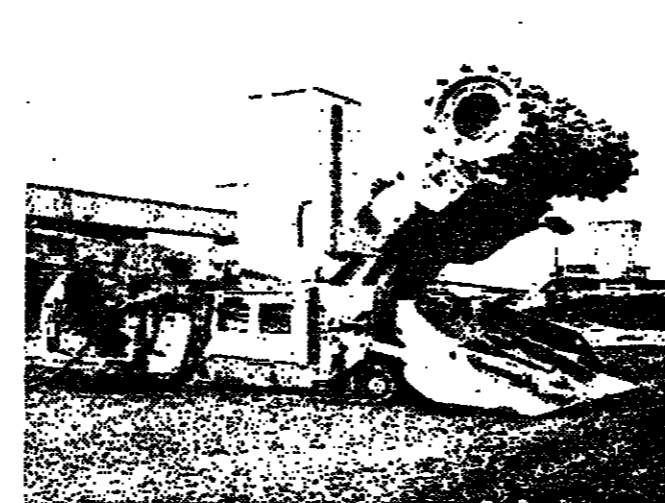
About 85 per cent of UK coal is mined using the longwall method pioneered in Britain, a position bettered only by West

Germany, and the UK equipment suppliers have been encouraged to develop technology appropriate to the task. Longwall mining involves shearing coal in a continuous swathe along a face which can measure up to 200 metres in width and which is continually advanced along with shearer, roof supports and conveyors on a broad front.

Coal yields on these faces range up to 90 per cent, where the more traditional bord and pillar method tends to yield only 50 per cent of mineable coal.

The successes that longwall mining has enjoyed in Britain is due in large part to the special relationship that exists between the NCB and the equipment industry which has nurtured it. Imports are few, orders are shared out equally and not even mergers, like that between Dobson Park and Fletcher Sutcliffe Wild, a major conveyor producer, in 1983, are frowned on.

The relationship is under pressure. The NCB is cutting investment in mining equipment — from £500m in 1982 to £390m last year for instance — and if the apparent desire of Mr Ian McGregor, NCB chairman, to close down the board's uneconomic pits is translated into action, some 200 of the current 550 longwall faces would probably go. About 100 faces have been lost since 1980.



A Joy 12CM continuous miner on the surface at Ellington Colliery, Northumberland. The NCB has ordered four more of these machines.

However, part of the British marketing problem is that, of the next eight major longwall producers — the USSR, Poland, West Germany, China, the U.S., Czechoslovakia, France and Hungary — only the U.S. and China have been penetrated or seem even likely to be penetrated by the UK equipment suppliers, according to the National Economic Development Office (Nedo). France is virtually a closed market and those Soviet bloc markets that are open, have been tied up by the West Germans.

Nevertheless, Nedo is forecasting UK exports of about £120m a year by 1988, assuming demand for 60 longwall faces a year in those markets open to UK manufacturers.

Some analysts believe that estimate is conservative. Exports peaked in 1979 largely because of major orders from China, and fell to £16m last year.

Ironically, the NCB might well prove its worth, short term, to the industry when the National Union of Mineworkers' strike ends. Since most pits have been let unattended since the beginning of March, hundreds of UK Board's estimated 1.5m roof supports have become stuck as pressure from the constantly moving rock around them continues to build up.

Coal shearers and electric motors have been left to sweat in damp and humid conditions and many will have to be scrapped. Just to replace damaged roof supports could mean an estimated £25m in new business for the equipment industry.



A range of pneumatic fittings and controls

Survivor of the long recession

Compressors

IAN RODGER

THE PNEUMATIC equipment industry is another that has survived the long recession in Britain better than many people suspected it might.

CompAir, the only British-owned major compressor manufacturer, still ranks third in the world behind Atlas Copco of Sweden and Ingersoll Rand of the U.S. and has managed to keep its product line largely intact.

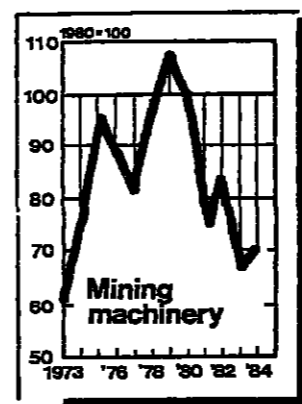
However, depressed markets and heavy rationalisation costs in the past few years have caused profits to fall from £1.6m pre-tax in 1977-78 to £2.8m in 1982-83, with a further decline reported in the first half of last year.

Atlas and Ingersoll-Rand also still have substantial manufacturing activities in Britain, as does Chicago Pneumatic, another large U.S. compressor maker.

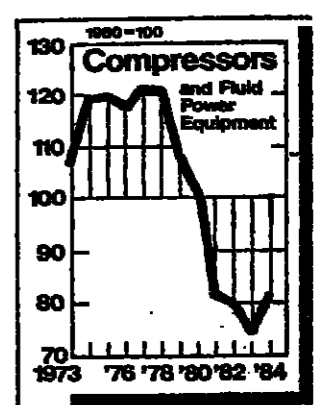
Mr Lamb is looking for further substantial increases this year. "We are beginning to demonstrate the glamour expected of this business," he says.

Martonair's latest report, for the half year to January 31, 1984, showed pre-tax profits up 11 per cent to £2.03m on turnover of £22.1m with a forecast of a similar growth rate in the second half.

IMI's recovery was due partly to its strong presence in the buoyant U.S. market, where it makes a little over half its sales, but mainly to internal improvements — eliminating product duplication between its European and U.S. companies, installing a more market-oriented management and making the factories more efficient.



Mining machinery



Compressors and Fluid Power Equipment

Coal shearer and electric motors have been left to sweat in damp and humid conditions and many will have to be scrapped. Just to replace damaged roof supports could mean an estimated £25m in new business for the equipment industry.

The board has already tried to dampen the effects of the strike. Any the overtime ban which began at the end of last year, by encouraging manufacturers to complete equipment already ordered. The producers have been paid, but have complained with NCB requests not to deliver so as to avoid provoking already angry miners.

Quite new orders to replace damaged machinery, and necessary additions, will be placed depends entirely on the board and the NUM negotiating an end to the dispute.

The bigger producers, like Dowty and Dobson Park, have some export business and other businesses to see them through. For the hundreds of small operations supplying local coalfields with commodity items ranging from lubricants to tubular steel struts, the situation must now be desperate and they are likely to be casualties if the dispute should continue into the winter.

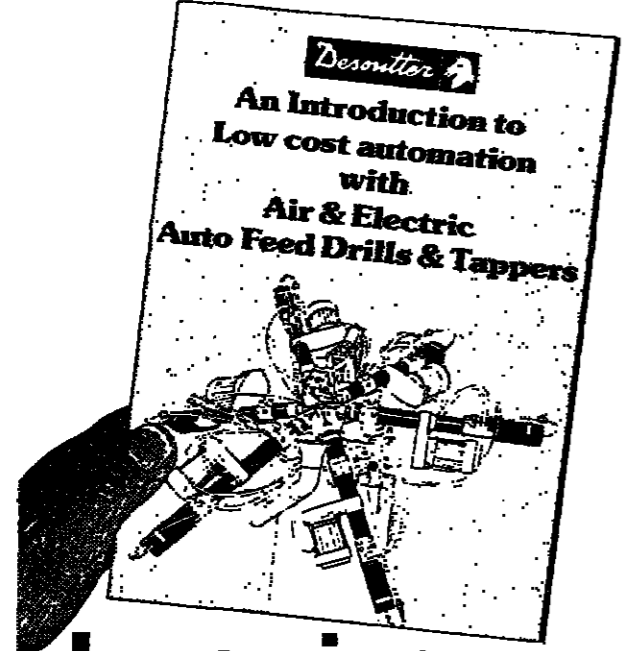
There are an estimated 2,000 mechanised longwall coal faces currently producing throughout the world today, with more than 25 per cent of them in Britain.

Some 60 per cent of Australian coal is mined in open pits, with the Canadians using the same method to produce more than 80 per cent of their coal.

The key to success for the British equipment producers then seems to lie with the fact that the deeper mines are driven underground, and the harder the coal seams, the more attractive a proposition longwall mining becomes.

It will take time for the big open cast mines in the U.S., Australia and Canada to be worked to a point where going underground becomes necessary. The British are only minor competitors in open pit equipment, largely because of the modest demand for it at home. Even where British companies are operating open pit mines in Australia and the U.S., little UK equipment is being used.

In part, what the British manufacturers face is a marketing problem. The North American



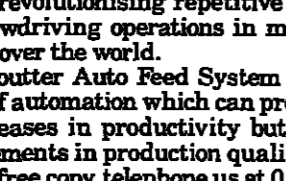
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Cuts

In addition, the NCB is making deep cuts in the level of spares it carries. For some items this has resulted in a drop of orders in the region of 30 per cent and overall of 10 per cent to 15 per cent.

This is "good housekeeping," say NCB officials, who point out that if economies are made in the £215m spent annually in the board's own workshops, and the £500m spent on maintenance in the mines, the savings could be redirected towards the equipment suppliers.

Nevertheless, the equipment industry has already begun to bend to the winds of change. Dowty's exports, £25m in 1978, have grown more than £20m, while Anderson Strathclyde has more than doubled exports, to £19m in the same period. Hawker Siddeley's exports accounted for about 18 per cent of mining equipment sales five years ago. Today, more than half of their business is done abroad.

The export markets are easy to spot. Outside Britain and West Germany, adoption of longwall mining techniques has been minuscule. Only 5 per cent of U.S. coal is mined at longwall faces, and the same goes for Australia and India. South Africa does a little better, at 7 per cent in 1982, and the figure is only 2 per cent in Canada.

The British manufacturers have already demonstrated their muscle in some of these markets, though they are hard pressed by West German competitors and indigenous suppliers where they occur. In 1981, Dowty won 12 of the 22 longwall developments in the U.S. and has had further successes in Australia with electronically controlled roof supports.

Where local markets have proved difficult to penetrate, the UK companies have sometimes bought control of local suppliers. Anderson Strathclyde took control of National Mine Service Company in the U.S. just before the Glasgow-based

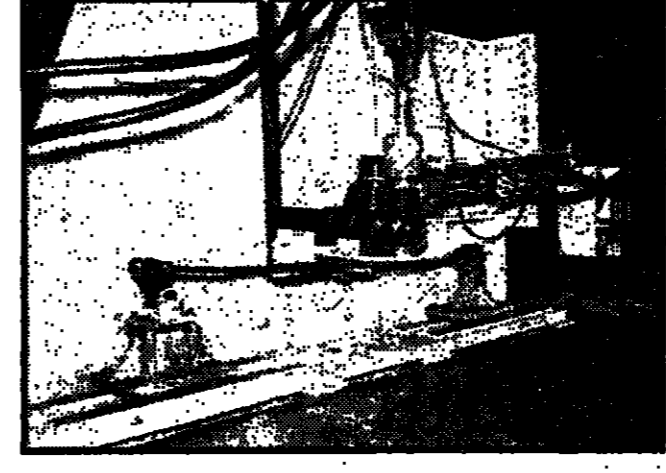
group was itself acquired by Charter Consolidated last year. Dobson Park spent £4.5m buying Marathon Industries in Virginia in 1981.

The potential for exports is theoretically immense. Unofficial estimates suggest that the UK mining equipment producers have potential markets worth £5bn available to them in coal alone. That figure is contentious, to say the least, but about 60 per cent of the 775m tonnes of coal produced in the U.S. in 1983 was mined in open pits and of the remaining 40 per cent mined underground, only a fraction was mined at longwall faces.

GKN has developed leaf springs for trucks made of reinforced fibre composite material, shown here under test. They perform better than conventional steel springs and are much lighter.

Commercial vehicle makers in Europe and the U.S. are paying GKN to make prototypes for them. Production is scheduled to begin early next year at a new £6.4m factory in Telford, creating up to 100 jobs.

GKN sees this as the kind of improvement on a component or component system that will keep it in the forefront of international motor industry suppliers. It estimates the potential world market for leaf springs at £500m a year.



A hard year and few signs of recovery

Construction equipment

IAN RODGER

IT HAS been a traumatic year for Britain's construction equipment industry.

The collapse of the West German IBH Holdings group largely because of the modest demand for it at home. Even where British companies are operating open pit mines in Australia and the U.S., little UK equipment is being used.

In part, what the British manufacturers face is a marketing problem. The North American

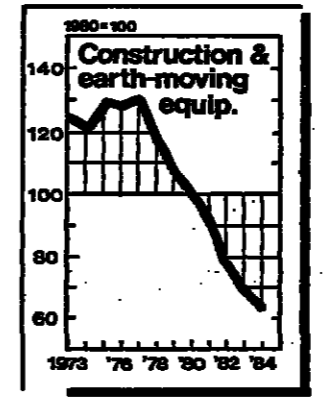
one to which may well be Terex, the heavy earthmoving equipment maker in Scotland. General Motors of the U.S., which had sold the entire Terex operation, with factories in Brazil, the U.S. and Scotland, to IBH in 1980, rescued the Scottish plant from the receivers in March.

Initially, it looked as though this was done merely to prevent Terex Scotland from being liquidated by the receivers, but GM did not really want to get back in the construction equipment business. Subsequently, it has been suggested that GM will let the U.S. operations of Terex, which are in bankruptcy, fade away, and try to rebuild the business from the Scottish base.

Terex Scotland is an efficient operation, being one of the few subsidiaries of IBH to have undergone significant rationalisation, and UK manufacturing costs are lower than those in the U.S. Also, Terex probably has better sales prospects in Europe and Africa than in the Americas where Caterpillar Tractor dominates in heavy earthmoving equipment.

Terex Scotland officials claim that GM has made a long term commitment to make the company viable. They are planning to expand the product range and seeking alliances with other manufacturers, such as Fiatallis of Italy. The workforce at the Motherwell plant has grown to 600 from a low of 350 early this year, and Terex directors are optimistic that they can recover their market share.

It will also be interesting to see if Hymac, the former UK market leader in hydraulic excavators, can rebuild an important share now that it is part of Nordberg Engineering Industries Ruston-Bucyrus and



Construction & earth-moving equip.

Slowdown

Unfortunately, for most of the 1970s, either the U.S. or the UK markets were in difficulty and so the division as a whole never did well. In the early 1980s, the sector's glamour image was shattered by the slowdown in spending on all industrial equipment and the emergence of highly competitive electronic controls for some applications.

But last year IMI's fluid power division staged a very strong turnaround, making pre-

Now that these improvements have been achieved, the group could have chosen to treat the business as a cash cow. The standard filters, regulators and lubricators, which make up about two-thirds of the division's turnover, are mature products. For example, the latest pneumatic controls do not need lubrication. But Mr Lamb says IMI has identified fluid power as one of its growth businesses.

Investing

In the mature areas, it aims to increase its market shares, and has been investing heavily in improving its European distribution system in the past two years and expanding in the Far East. It is also concentrating on the few high technology areas, such as filters for use in microbiology, where growth and margins are stronger.

Meanwhile, it is also trying to build up its presence in the much larger markets for valves, both through internal development and through acquisitions. Mr Lamb is particularly eager to get into the new miniaturised part-electronic valves, an area in which Japanese manufacturers have a lead.

IMI acquired a small U.S. company last year that has developed a miniature electronic reed valve and Mr Lamb is very excited about its prospects. He is also planning to import products from Japan, a move which might lead to manufacturing some under licence.

Mr Lamb is also determined to get into the Japanese market, the only major one in the world in which the division does not have a significant presence. He has been attempting to arrange a joint venture there for over two years. "It is very difficult to enter that market. There is a club of producers that does not want us in. But we will get there. I think they admire our tenacity."

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